FINANCIAL MARKET SUPERVISION REPORT

2018

CZECH
NATIONAL BANK

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The Czech National Bank has issued a Financial Market Supervision Report since 2006[1] on the basis of Article 45d of Act No. 6/1993 Coll., on the Czech National Bank, as amended. The CNB is obliged to compile such a report each year and submit it for information to the Chamber of Deputies, the Senate and the Government by 30 June of the following year at the latest.

The Financial Market Supervision Report 2018 consists of three parts.

Part A gives information on CNB supervision, including supervision of compliance with the rules of consumer protection, on licensing and enforcement procedures, on changes in the Czech and EU legislation regulating the financial market and on the CNB's activities in the area of international cooperation.

Part B focuses on the Czech financial market supervised by the CNB and describes developments in the banking, credit union and insurance sectors and the capital market, including pension management companies and their funds.

Part C contains annexes relating to financial market supervision.

The Financial Market Supervision Report 2018 was discussed and approved by the CNB Bank Board on 13 June 2019.

It will be published on the CNB website in Czech and English.

1 The Financial Market Supervision Reports for 2006–2017 are published on the CNB website (www.cnb.cz > *Supervision, regulation* > *Aggregate information on the financial sector* > *Financial Market Supervision Reports*).

The CNB performed the role of integrated financial market supervisory authority in 2018 based on powers conferred on it by Act No. 6/1993 Coll., on the Czech National Bank. In addition to supervision of supervised entities and capital market infrastructure, it also carried on other activities in this role. These included licensing, approval and authorisation work, the imposition of penalties and remedial measures where shortcomings had been detected, and activities in the fields of regulation and international cooperation.

The CNB was supervising 23 domestic banks, including five building societies, and ten credit unions as of the end of 2018. To a limited extent, it was also supervising 27 branches of foreign banks, 25 of them based in the European Economic Area. Off-site surveillance of credit institutions, where the CNB applies a risk-oriented approach, was focused mainly on compliance with prudential rules and regular assessment of the financial condition of supervised institutions. As part of its supervision of credit institutions, the CNB also conducted 12 examinations in banks and four examinations in credit unions in 2018.

The domestic banking sector could be regarded as stable in 2018. The sector's total assets amounted to CZK 7,281 billion at the end of 2018, up by 4% on a year earlier. The volume of client loans and receivables rose by 7.2% year on year in 2018 amid a continued (albeit slower) downward trend in the ratio of non-performing exposures to total exposures. Banks' net profit recorded a year-on-year rise of 8%, amounting to CZK 81.4 billion. The capitalisation of the domestic banking sector remained satisfactory in 2018. The total capital ratio increased slightly by 0.3 pp to 19.6%.

The CNB was supervising 26 domestic insurance companies, one reinsurance company and, to a defined extent, also the Czech Insurers' Bureau and the Export Guarantee and Insurance Corporation in 2018. To a limited extent, it was also supervising 20 branches of foreign insurance companies, all of them based in EEA countries. The CNB's off-site surveillance of the insurance sector was primarily based on regularly assessing the financial condition and solvency situation of the supervised entities and on compliance with governance system requirements and the obligations related to regulatory reporting and information disclosure. The CNB conducted ten examinations in the insurance sector in 2018.

The Czech insurance sector was stable in 2018. The number of domestic insurance companies having a dominant share of the insurance market was unchanged. The total assets of domestic insurance companies (including foreign branches) increased slightly to CZK 491 billion. Gross premiums written also rose, by 2.7% to CZK 155.5 billion, due mainly to higher premiums written in non-life insurance, as total premiums in life insurance dropped slightly in year-on-year terms. Insurance companies' net profit increased substantially in 2018. It totalled CZK 14 billion, up by CZK 3.2 billion on the previous year. The median ratio of the eligible own funds of domestic insurance companies to the solvency capital requirement was 207% at the year-end, well above the minimum criterion of the solvency capital requirement.

The CNB was supervising eight pension management companies managing 28 participation funds and eight transformed funds at the end of 2018. Pension management companies generated a net after-tax profit totalling CZK 1.4 billion, up by 2.7% on a year earlier. There were 4.4 million planholders in the third pension pillar at the year-end, a decline of 14,000 from the previous year. Pension funds' total assets rose by 5.6% year on year to CZK 470.3 billion.

At the end of 2018, the CNB was also supervising 37 entities holding an investment firm licence, 30 management companies, 138 investment funds with legal personality and 242 mutual funds. Investment firms recorded a decline in client assets of 4.4% to CZK 4,448.7 billion in 2018. At the aggregate level, the sector remained profitable and sufficiently capitalised. The aggregate net profit of management companies rose by 12.3% year on year to CZK 1.1 billion despite a stock market correction at the end of 2018 which negatively affected the value of the assets managed.

The CNB also supervised bureaux-de-change licence holders in 2018. This supervision mainly took the form of on-site examinations and local investigations. Supervisory activities also focused on payment institutions, electronic money institutions, small-scale electronic money issuers, small-scale payment service providers, investment and insurance intermediaries, and consumer credit providers and intermediaries.

Supervisory activities in the area of compliance with the duties set out in the Consumer Protection Act were another integral part of the CNB's supervisory work. These activities were focused mainly on checking whether unfair commercial practices had been used against consumers and whether financial market entities had complied with the duty to treat customers with professional care, and on checking shortcomings in informing consumers.

As regards regulation, the CNB was involved in the preparation of numerous important legal rules concerning the domestic financial market. In this respect, it is worth mentioning the CNB's involvement in the preparation of amendments to the Act on Banks and the Act on Credit Unions, amendments to laws in the area of regulation of business activities on the capital market and an amendment to the Act on Bureau-de-Change Activity. The CNB also participated in the preparation of the Act on Insurance and Reinsurance Distribution and legislative proposals to strengthen the resilience of the EU banking sector.

In 2018, the CNB was also actively involved in the activities of European and international institutions engaged in financial market regulation and supervision. Of particular importance was its work within the European Supervisory Authorities (the EBA, the ESMA and the EIOPA), the ECB, the ESRB and other international organisations such as the BCBS, the IOSCO and the IAIS. In addition, the CNB helped prepare the Czech Republic's positions for meetings within EU structures (such as the EFC and the ECOFIN Council). Ongoing cooperation with other national supervisory authorities of EU Member States, which took place primarily within supervisory colleges for banking and insurance groups, was also of great importance.

PART A
FINANCIAL MARKET SUPERVISION IN 2018

1. THE CNB'S CORE ACTIVITIES IN THE AREA OF FINANCIAL MARKET SUPERVISION IN 2018

The Czech National Bank performs the role of integrated financial market supervisory authority. This involves a wide range of activities – not only on-site and off-site supervision itself, but also licensing and enforcement work, activities in the regulatory area and – last but not least – activities in the area of international cooperation. The main principles of supervision of financial market participants is based on the *Long-term Supervisory Strategy of the Czech National Bank*, published in 2015 and updated in April 2017. The CNB's supervisory work in 2018 was based primarily on the following priorities and major legislative changes.

Major changes to legislation

- the Act on Insurance and Reinsurance Distribution[2] transposing Directive (EU) 2016/97 of the European Parliament and of the Council and the CNB's decrees implementing this Act;
- an amendment to the Act on Bonds and an amendment to the Recovery and Resolution Act;
- an amendment to Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

Priorities in the area of regulation

- assistance in the preparation of amendments to laws in the area of regulation of business activities on the capital market (the Capital Market Undertakings Act, the Act on Management Companies and Investment Funds and the Act on Supplementary Pension Savings) and amendments to the Act on Banks and the Act on Credit Unions;
- involvement in the preparation of legislative proposals to strengthen the resilience of the EU banking sector (amendments to CRD IV/CRR[3] and BRRD[4]) and a directive and new regulation on prudential rules for investment firms;
- involvement in the preparation of an amendment to the Act on Bureau-de-Change Activity;
- involvement in the preparation of the Act on Insurance and Reinsurance Distribution;
- involvement in the preparation of the Act on Amending Certain Matters in Connection with the Withdrawal of the United Kingdom from the European Union (*lex brexit*) to ensure the continuity of contracts in the transition period in the event of a hard Brexit.
- completion of the implementation of PAD (Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features) in the area of comparability of fees related to payment accounts, and the publication of implementing decrees for the Payment System Act.

2 Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution, in the version effective as of 1 December 2018.

3 Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

4 Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms.

Core activities in the area of financial market supervision

- improving processes for reviewing and assessing credit institutions' risk profiles, especially in the area of credit risk and IS/IT risks;

- in the area of prudential supervision of credit institutions, monitoring the ways in which credit (both mortgage and other consumer) is provided to households, especially as regards processes for assessing client creditworthiness and collateral valuation methods, including compliance with the CNB's Recommendation on the management of risks associated with the provision of retail loans secured by residential property and Supervisory Benchmark No. 1/2017 on the provision of loans to households by credit institutions;[5]

- in line with technological trends, assessing risks connected with cybersecurity and the use of cloud services;

- in the area of conduct of business of credit institutions, focusing on the areas of investment services, payment services and banks' bureau-de-change activities;

- examining compliance with the duties laid down in the PSD 2 directive[6] and related legal rules, including methodologically ensuring fulfilment of the new requirements stipulated in PSD 2, the new Payment System Act[7] and other related legal rules;

- supervising compliance with the Solvency II regulatory regime, especially as regards valuation of technical provisions, appropriate configuration of insurance companies' governance systems and disclosure of information, focusing mainly on configuration of the process of premium sufficiency management in vehicle liability insurance and checks of insurance companies' continuous compliance with the statutory duty to ensure that claims arising from vehicle liability insurance can be settled any time;

- monitoring the management of the quality of insurance distribution activities and insurance companies' compliance with loss adjustment obligations;

- configuring supervisory procedures in relation to the new Act on Insurance and Reinsurance Distribution[8] and the directly applicable regulation and preparing for their implementation by supervised entities, especially in the area of product governance;

- supervising compliance with the requirements set out in the directly applicable regulation on key information documents (PRIIPs)[9] by insurance companies and branches of foreign insurance companies related to investment life insurance products and supervising compliance with the duty to produce key investor information under the same regulation for funds for qualified investors;

- assessing the capital management and capital adequacy of pension management companies and the ability of transformed funds to cover their liabilities with assets;

5 For more details, see the CNB website: *Dohled a regulace > Výkon dohledu > Dohledová úřední sdělení a benchmarky* (in Czech only).

6 Directive 2015/2366 (EU) of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.

7 Act No. 370/2017 Coll., on Payment systems, as amended.

8 Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution, as amended.

9 Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products.

- examining compliance with the obligations arising from an amendment to the Capital Market Undertakings Act[10] and MiFID II[11] and directly applicable regulations and supervising compliance with new duties;

- as part of conduct of business supervision of non-bank investment firms, focusing on the area of placing debt securities and offering debt securities to retail clients;

- in the segment of non-bank payment service providers, assessing and verifying fulfilment of the conditions for granting authorisations pursuant to transitional provisions of the new Payment System Act[12] and related ongoing adjustment of all aspects of supervision to the regulations contained in the new law and other related legal rules;

- performing supervision of non-bank bureau-de-change operators focused on compliance with statutory duties, especially in relation to clients and particularly in bureaux de change in localities frequently visited by tourists with an increased risk of unfair practices, and applying supervisory experience when assisting in the preparation of an amendment to the Act on Bureau-de-change Activity;[13]

- in the area of consumer credit, exercising supervisory powers over all consumer credit providers and performing on-site examinations in entities authorised to intermediate consumer credit and in accredited entities;

- conducting off-site surveillance focused on the elimination of systemic shortcomings in the conduct of business and consumer protection areas;

- helping clarify ambiguities with regard to interpretation and uncoordinated practice in the conduct of business area in financial market entities.

Priorities in the area of international cooperation

- active CNB involvement in the activities of the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA);

- participation in the activities of the European Systemic Risk Board (ESRB) relating mainly to sources of systemic risks originating in an environment of very low interest rates. From the CNB's perspective, the key topic last year was the assessment of risks associated with financing of residential property purchases, which may be reflected in the ESRB's warnings or recommendations to national macroprudential authorities;

- CNB involvement in the activities and preparation of positions within the EU Council and its structures, in particular on the Banking Union (reducing risk in the banking sector, the European Deposit Insurance Scheme, the common backstop) and the capital union (the review of the European System of Financial Supervision).

10 Act No. 256/2004 Coll., on Capital Market Undertakings, as amended.

11 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

12 Act No. 370/2017 Coll., on the Payment System, as amended.

13 Act No. 277/2013 Coll., on Bureau-de-Change Activities, as amended.

2. REGULATIONS IN THE CZECH REPUBLIC IN 2018

In 2018, the CNB participated in amending the legislation forming the regulatory framework for the financial market in the Czech Republic. These amendments arose primarily from the implementation of EU legislation. In the legislative area, the CNB worked with the Czech Ministry of Finance and other state administration bodies on the preparation of new laws and issued decrees related to legislative changes and explanatory and methodological opinions on the application of regulatory requirements pertaining to financial market entities. This section describes the most important legislative changes in the area of financial market regulation.

2.1 CHANGES TO LAWS

The CNB was involved in the preparation of laws and government decrees in the financial market area in accordance with the agreement signed by the CNB and the Ministry of Finance in May 2006 on cooperation in the preparation of draft national legislation concerning the financial market and other regulations,[14] for which the Ministry of Finance has primary responsibility.

2.1.1 Acts and government decrees promulgated in the Collection of Laws in 2018

The following laws and government decrees, which the CNB was involved in preparing, were drawn up and promulgated in the Collection of Laws in 2018:

Amendment to the Act on Certain Conditions for Business in the Tourism Industry (No. 111/2018 Coll.)
The amendment to the Act on Certain Conditions for Business and the Performance of Certain Activities in the Tourism Industry transposes the directive of the European Parliament and of the Council on package travel and linked travel arrangements into Czech law and thereby unifies the rules for package travel and linked travel arrangements in the EU internal market. The amendment also established a guarantee fund consisting of contributions paid by travel agencies. The purpose of the fund is to provide insurance companies with money to settle the claims of customers of bankrupt travel agencies if the losses they incur exceed the agreed cover. The act was promulgated in the Collection of Laws on 15 June 2018 and took effect on 1 July 2018.

Act on Insurance and Reinsurance Distribution (No. 170/2018 Coll.) implementing IDD
The new Act on Insurance and Reinsurance Distribution transposes Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. The law focuses on unifying regulatory principles and consumer protection across the financial market, ensuring the same level of consumer protection for different forms of insurance distribution, strengthening the emphasis on comprehensibility and comparability of information about financial products (in particular information about the costs of life insurance products) and increasing the required level of professionalism of persons working in this segment. The act was promulgated in the Collection of Laws on 16 August 2018 and took effect on 1 December 2018.

Amendment to the Act on the Activities of Institutions for Occupational Retirement Provision (No. 180/2018 Coll.)
The amendment to Act No. 180/2018 Coll., on the Activities of Institutions for Occupational Retirement Provision, transposed Directive 2014/50/EU of the European Parliament and of the Council of 16 April 2014 on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights. The amendment simplifies the exercise of the right for the free movement of workers in the area of occupational supplementary pension systems between Member States, limits the barriers created by some rules

14 https://www.cnb.cz/export/sites/cnb/cs/legislativa/.galleries/postaveni_cnb/dohoda_CNB_MF.pdf

related to supplementary pension systems tied to employment (such as a minimum age or waiting period) and ensures that workers are informed about their supplementary pension rights. The system of occupational pension schemes has not been introduced in the Czech Republic. Nevertheless, the Czech Republic is obliged to transpose the directive into its law. The act was promulgated in the Collection of Laws on 16 August 2018 and took effect on the same date.

Amendment to the Recovery and Resolution Act (No. 182/2018 Coll.)
The amendment to the law amending Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market, refines and completes some previously implemented provisions of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms. It also regulates some issues regarding the functioning of the Financial Market Guarantee System on the basis of previous experience with its functioning. The act was promulgated in the Collection of Laws on 16 August 2018 and took effect on 1 October 2018.

Amendment to the Act on Bonds (No. 307/2018 Coll.)
The amendment to Act No. 307/2018 Coll., on Bonds, contains substantial changes to the system of covered bonds (mortgage bonds) and some other modifications, such as the introduction of a security agent. It was promulgated in the Collection of Laws on 12 December 2018 and took effect on 4 January 2019.

Amendment to the government decree on investment fund investments and techniques and instruments used for the purpose of portfolio management (Government Decree No. 97/2018 Coll.)
The amendment to the government decree on investment fund investments and techniques and instruments used for the purpose of portfolio management adapts Czech law to the EU regulation on money market funds which took effect on 21 July 2018. The amendment therefore repeals the provisions regulating money market fund investments, which would duplicate this EU regulation following its entry into effect. It was promulgated in the Collection of Laws on 5 June 2018 and took effect on 21 July 2018.

2.1.2 Acts prepared in 2018

The following laws regulating the business activities of financial market participants subject to regulation and supervision were prepared in 2018 with the active participation of the CNB.

Amendment to the Act on Bureau-de-Change Activity and the Payment System Act (No. 5/2019 Coll.)
Based on supervisory findings, the CNB prepared a proposal to amend the Act on Bureau-de-Change Activity, which was submitted to the Ministry of Finance in December 2016. The substance of the draft was the introduction of the right of a consumer to withdraw from (cancel) an exchange without giving reasons and without incurring any fees within a certain time after entering into the contract, the obligation to publish only one exchange rate list (a prohibition of offering "VIP rates"), a prohibition of charging a commission for bureau-de-change transactions (with the exception of the exchange of coins, cheques, scriptural money and electronic money) and a requirement for the senior officer actually managing bureau-de-change activities to hold the position of senior officer in only one bureau-de-change. The bill, prepared by the Ministry of Finance in partnership with the CNB, was approved by the government in May 2018 and, after some modifications, was passed by the Chamber of Deputies. In addition to revisions related to bureau-de-change activities, the amendment contained some technical changes to the Payment System Act. The act was promulgated in the Collection of Laws on 10 January 2019 and took effect on 1 April 2019.

Amendment to laws in the capital market area (the prospectus and other changes)
The draft act adapts Czech law to Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 and also responds to some shortcomings in the current legislation which emerged in practice. The draft repeals regulations governing the prospectus in the Act on Capital Market Undertakings, as they duplicated the EU regulation, but also changes the rules for recording telephone conversations concerning investment services and extends the range of activities regarded as investment services to include preparatory work in the capital market area. The Act on Management Companies and Investment Funds and the Insolvency Act expressly set forth procedures regarding the

insolvency of sub-funds and mutual funds. Other minor changes concern the promoter area, the meeting of unit-holders, investment shares, depositaries of below-limit funds for qualified investors, outsourcing in relation to alternative assets and tolerance of negligible errors in valuation, for example. An amendment to the Act on Supplementary Pension Savings proposes regulation of independent intermediaries and tied agents. The legislative process of preparing the two acts will continue in 2019.

Amendment to the Capital Market Undertakings Act (support for the exercise of shareholder rights)
The draft law aims to meet the need to transpose Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. The amendment mainly affects issuers whose shares are traded on a European regulated market (i.e. listed companies) and institutional investors and asset managers, on whom it imposes duties relating to the management of shares issued by listed companies. In accordance with the directive, the bill governs the identification of shareholders, voting information and remuneration of senior officers, material transactions with related parties, the duties of institutional investors and asset managers and the duties of proxy advisers. The government submitted the draft law to the Chamber of Deputies on 9 October 2019. The legislative process will continue in 2019.

Amendment to the Act on Banks and the Act on Credit Unions
A large part of the bill, in the form as it was prepared in 2018, is based on the content on the original amendment approved by the government in March 2017 and then discussed by the Chamber of Deputies as parliamentary print 1061, the legislative process for which was not completed due to elections to the Chamber of Deputies in the past parliamentary term. An important material change is strengthened protection of bank customers and enhanced financial stability in the event of conversion or disposal of a bank's business or part thereof. If such operations result in conversion into a branch of a foreign bank, the proposal provides depositors with sufficient rights to withdraw their funds free of charge going beyond the present situation. Clients should also be protected by the newly introduced duty of banks and credit unions to provide their services with professional care subject to CNB supervision.

Another change aimed at enhancing the stability of the deposit insurance system and simultaneously strengthening depositor protection is the possibility to cover the operating costs of the Deposit Insurance Fund with extraordinary operational contributions or with a subsidy or repayable financial assistance from the state budget.

Proposals to reduce administrative burden on market participants include cancellation of the duty requiring banks to submit a list of their shareholders to the CNB before each general meeting and simplification of the procedure to waive the requirement for an audit of the governance system and the procedures for cross-border activities of credit institutions. The amendment also sets rules for qualifying holdings, refines the method for calculating the settlement share in a credit union's assets, and clarifies the legislation in cases of the passage or transfer of membership rights in a credit union, especially as regards the exercise of voting rights.

An important part of the proposed amendment is that it unifies the conditions for winding up a bank after its licence has been revoked and for appointing or dismissing a liquidator with the legislation on credit unions. The draft also clarifies the effects of the annulment of a decision to revoke a bank licence or a credit union authorisation by a court. According to the draft, the judgement whereby a court has annulled a decision to revoke a bank licence or credit union authorisation will become enforceable after the lapse of the time limit for filing a cassation appeal or through a final and conclusive decision issued by the Supreme Administrative Court The exception is where a suspensive effect was granted to an appeal in first-instance proceedings.

The legislative process for the two laws will continue in 2019. If approved by the government, the bill will be submitted to the Chamber of Deputies for debate.

A General Personal Data Processing Act and an accompanying act
In connection with the General Data Protection Regulation (GDPR), the legislative process to adapt this general regulation by means of a new General Personal Data Processing Act to replace Act No. 101/2000 Coll., on Personal Data Protection, and an accompanying act implementing changes to related acts, continued in 2018. The accompanying act

also includes an amendment to the CNB Act concerning the treatment of personal data in the course of supervision of the financial market, resolution and statistics compilation, and an amendment to the Act on the Central Register of Accounts, which is operated by the CNB. The CNB made comments on the draft accompanying act, focusing on the sufficiency of exemptions from data entities' rights in respect of the conduct of financial market supervision and resolution. The CNB's comments were incorporated. The Chamber of Deputies passed the bill on 5 December 2018. The legislative process of preparing the two acts will continue in 2019.

Amendment to the Act on the Czech National Bank

This amendment covers some issues connected with the position of the CNB, its issuing function and the conduct of monetary and macroprudential policy. It also contains a new CNB power to set (through provisions of a general nature) binding indicators relevant to the provision of loans secured by residential property in the event of elevated systemic risks to credit providers. These indicators are the LTV (loan-to-value), DTI (debt-to-income) and DSTI (debt service-to-income) ratios. The legislative process of preparing the amendment to the act will continue in 2019.

Amendment to the Act on the Activities of Institutions for Occupational Retirement Provision

Another draft amendment to Act No. 340/2006 Coll., on the Activities of Institutions for Occupational Retirement Provision, is intended to transpose Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision. The aim is to facilitate such institutions' cross-border activities and cross-border transfers of pension schemes or parts thereof. The directive only applies to occupational pension systems, i.e. pension systems where participation is tied to employment and where the employer usually signs a contract on the management of funds and benefit payment with a financial institution, or where this system is historically organised across entire industrial sectors, for example, or where the employer itself establishes such institutions. The legislative process of preparing the amendment to the act will continue in 2019.

2.2 CNB DECREES

The CNB issues implementing legal rules in the form of decrees on the basis of authorisations defined in individual laws. The following list contains the decrees issued by the CNB which implement new or amended laws in the financial market area:

- Decree No. 1/2018 Coll., on applications and notifications to perform activities pursuant to the Payment System Act.
- Decree No. 7/2018 Coll., on certain conditions of the pursuit of business of payment institutions, account information service providers, electronic money institutions, small-scale payment service providers and small-scale electronic money issuers.
- Decree No. 14/2018 Coll., on payment systems with settlement finality.
- Decree No. 67/2018 Coll., on certain requirements for the system of internal principles, procedures and control measures against money laundering.
- Decree No. 74/2018 Coll., on services linked to a payment account covered by the standardised terms.
- Decree No. 131/2018 Coll. on the submission of credit and credit risk data to the Czech National Bank.
- Decree No. 141/2018 Coll., on reporting of major security and operational incidents by persons authorised to provide payment services.
- Decree No. 195/2018 Coll., on professional qualifications for the distribution of insurance.

- Decree No. 196/2018 Coll., on applications under the Act on Insurance and Reinsurance Distribution.
- Decree No. 217/2018 Coll., amending Decree No. 314/2013 Coll., on the submitting of statements to the Czech National Bank by entities that belong to the financial institutions sector, as amended by Decree No. 2015/2014 Coll.

2.3 OFFICIAL AND OTHER INFORMATION ISSUED

The CNB informs financial market participants about its approach to the application of legal rules and other important facts in official information documents, among other things. The following list contains the official and other information documents issued in 2018:

- Official information of the Czech National Bank of 8 January 2018 regarding major incidents reporting.
- Official information of the Czech National Bank of 8 January 2018 regarding certain reporting under the Payment System Act and the cancellation of certain official information of the Czech National Bank.
- Official information of the Czech National Bank of 8 January 2018 on the cancellation of certain official information of the Czech National Bank in connection with Act. No. 204/2017 Coll., amending Act No. 256/2004 Coll., on Capital Market Undertakings, as amended, and other related acts.
- Official Information of 1 March 2018 regarding calculation of the risk weights for determination of contributions to the Deposit Insurance Fund.
- Official information of 28 March 2018 on the performance of the activities of banks, credit unions and investment firms – disclosure of information.
- Official information of 14 June 2018 on the performance of the activities of banks, credit unions and investment firms – disclosure of information.
- A CNB notification for entities providing payment services on the basis of authorisation by the CNB under Act No. 284/2009 Coll., the Payment System Act, as amended.
- A list of descriptions of activities carried out pursuant to Article 3(3)(c)(4) and Article 3(3)(e) of the Payment System Act (updated on an ongoing basis during 2018).

The CNB also provides market participants and the general public with information in the form of opinions and replies to queries relating to financial market regulation. Explanatory opinions on the application of legal rules, including a set of explanatory opinions on the Act on Insurance and Reinsurance Distribution and the related implementing measures, were published on the CNB website in 2018. The CNB answered more than 600 queries on financial market regulation received as expert queries from market participants and law firms and as queries from the general public in 2018.

The CNB publishes and regularly updates the list of decrees, provisions of a general nature, official and other information and opinions relating to the financial market on its website (*Supervision, regulation > Legislation*).

3. EU REGULATIONS IN 2018

In 2018, as in previous years, new rules in the area of financial market regulation were prepared at the EU level. This work included in particular the preparation of directives and regulations of the European Parliament and of the Council and implementing regulations of the European Commission. When discussing these legislative proposals, the CNB worked closely with the Ministry of Finance on the formulation of the Czech Republic's positions and the preparation of instructions for the meetings of EU Council working groups, which are also attended by CNB representatives as observers in some cases. The CNB also prepared and presented non-papers on selected regulatory topics.

3.1 REGULATIONS AND DIRECTIVES OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

Directive (EU) 2018/843 of the European Parliament and of the Council amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and amending Directives 2009/138/EC and 2013/36/EU was issued in 2018. The deadline for the transposition of the directive is 10 January 2020.

In connection with EU directives and regulations, the European Supervisory Authorities (the EBA, the ESMA and the EIOPA) prepared regulatory and implementing technical standards which the European Commission then issued as directly applicable regulations. The Commission likewise issued delegated regulations, for which the European Supervisory Authorities (ESAs) drew up technical advice on the basis of authorisations in EU law. Within the ESAs' activities, the CNB was actively involved, among other things, in preparing the following implementing measures:

Implementing measures for the directive and regulation on markets in financial instruments (MiFID II, MiFIR)

- Commission (delegated) regulation (EU) No 2018/63 amending Delegated Regulation (EU) 2017/571 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the authorisation, organisational requirements and the publication of transactions for data reporting services providers.

Implementing measures for the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)

- Commission (delegated) regulation amending Delegated Regulation (EU) 2015/35 as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings.

- Two Commission implementing regulations (implementing technical standards) published in the Official Journal of the EU in 2018, amending implementing regulations (EU) 2015/2452 and (EU) 2015/2450 as regards the scope of application of the template for disclosing premiums, claims and expenses by country and the templates for the submission of information to the supervisory authorities in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

- Four Commission implementing regulations (implementing technical standards) published in the Official Journal of the EU in 2018 laying down technical information for the calculation of technical provisions and basic own funds for reporting and the templates for the submission of information to the supervisory authorities.

Implementing measures for the directive on the prudential supervision of credit institutions and investment firms (CRD IV/CRR)

- Five Commission (delegated) regulations published in the Official Journal of the EU in 2018 specifying the assessment methodology for permitting the use of Advanced Measurement Approaches for operational risk, setting out procedures for excluding transactions with non-financial counterparties established in a third country from the own funds requirement and for the materiality threshold for credit obligations past due and amending Delegated Regulation (EU) 2015/61 with regard to the liquidity coverage requirement for credit institutions and correcting certain language versions of Regulation (EU) 575/2013 of the European Parliament and of the Council.

- Five Commission implementing regulations (implementing technical standards) published in the Official Journal of the EU in 2018 which extend the transition periods related to own funds requirements for exposures to central counterparties, define the mapping tables specifying the correspondence between the credit risk assessments of external credit assessment institutions and the credit quality steps, lay down closely correlated currencies in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council and amend Implementing Regulation (EU) No 680/2014 as regards prudent valuation for supervisory reporting.

Implementing measures for the regulation on indices used as benchmarks (BMR)

- Four commission (delegated) regulations published in the Official Journal of the EU in 2018 governing the criteria for assessing events with significant impacts on market integrity, financial stability or the financing of households and businesses in Member States and specifying the method for assessing the nominal amount of financial instruments and the net asset value of investment funds, and the impact resulting from the cessation of existing benchmarks.

- Ten Commission regulations (regulatory technical standards) published in the Official Journal of the EU in 2018 governing the procedures and characteristics of the oversight function, appropriateness and verifiability of input data, the elements of the code of conduct, the governance requirements for supervised contributors, the information provided by administrators, the content of the application for recognition and the information provided in an application for authorisation and in an application for registration.

- Two Commission implementing regulations (implementing technical standards) published in the Official Journal of the EU in 2018 laying down procedures and forms for the provision of information by competent authorities to ESMA and templates for the compliance statement to be published and maintained by benchmark administrators.

Implementing measures for the directive establishing a framework for the recovery and resolution of credit institutions and investment firms

- Two Commission (delegated) regulations published in the Official Journal of the EU in 2018 specifying the criteria for assessing the value of assets and liabilities of institutions or entities and the methodologies for valuation of difference in treatment in resolution.

- Two Commission implementing regulations (implementing technical standards) published in the Official Journal of the EU in 2018 setting out procedures for the provision of information for the purposes of resolution plans and formats for the identification of information on the minimum requirement for own funds and eligible liabilities by resolution authorities.

Implementing measures for the regulation on improving securities settlement in the European Union and on central securities depositories

- A Commission (delegated) regulation published in the Official Journal of the EU in 2018 governing the requirements for settlement discipline.

Implementing measures for the market abuse regulation (MAR)

- A Commission implementing regulation (implementing technical standard) laying down procedures and forms for exchange of information and assistance between competent authorities.

Implementing measures for the alternative investment fund managers directive (AIFMD)

- A Commission implementing regulation (implementing technical standard) laying down the template to be used by managers of money market funds when reporting to competent authorities.

3.2 DRAFT DIRECTIVES AND REGULATIONS

A package of legislative proposals to strengthen the resilience of the EU banking sector

The legislative proposals to reduce risk in the EU banking sector which the European Commission published in November 2016 were under discussion in 2018. They include proposals to revise the prudential regulatory rules contained in CRD IV and CRR, the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR). A rather broad revision has been proposed for CRD IV/CRR, covering the issues of prudential consolidation, large exposures, equity exposures in funds, the leverage ratio, capital buffers for systemic risk, stable funding, Pillar 2 guidelines and remuneration. The main topics being discussed as part of the proposed changes to BRRD include MREL calibration, moratorium duration and the possibility of including covered deposits in a moratorium. The results of the trialogues were endorsed at the ECOFIN Council meeting on 4 December 2018. The package is expected to be approved in 2019.

Draft regulation and directive on prudential rules for investment firms

The draft regulation and directive on investment firms and related amendments to the regulation and directive on credit institutions (CRD/CRR) and the regulation and directive on markets in financial instruments (MiFID/MiFIR) published by the European Commission in December 2017 were under discussion in 2018. The aim is to create a regulatory framework that will better correspond to the risks faced by investment firms and to implement the proportionality principle. In terms of size and importance, investment firms will be divided into three categories. Firms falling under category 1 will be required to obtain authorisation under CRD/CRR, whereas firms in category 3 will enjoy significant exemptions from the prudential requirements. The discussions will continue in 2019.

Draft regulation on a pan-European personal pension product (PEPP)

A draft regulation on a pan-European personal pension product (PEPP), published by the European Commission in June 2017, was under discussion in 2018. The proposed regulation aims to lay the foundations for a more cost-effective and transparent market for voluntary personal pension savings managed on a pan-European scale, although only to complement the existing national systems. A political agreement was reached in trialogue negotiations in December 2018. This agreement will be submitted to the EU Council and the European Parliament for discussion and approval.

Amendments to EMIR

Two draft amendments to Regulation (EU) 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR), which the European Commission published in 2017, were under discussion in 2018. The aim of the first amendment is to ensure simpler and more proportional rules for the clearing obligation, the risk-mitigation techniques for OTC derivatives contracts and the registration of trade repositories, i.e. to reduce the administrative burden and the costs of compliance with these rules. The second amendment relates to the procedures and authorities involved in the authorisation of the EU's central counterparties and the requirements for the recognition of third-country central counterparties. The EU Council's general approach to the two amendments was approved at the end of 2018.

Draft crowdfunding regulation

On 8 March 2018, the European Commission published a draft regulation on crowdfunding, which is based on the introduction of an EU licence allowing loan-based and investment-based crowdfunding platforms to operate under ESMA authorisation across the EU. The draft regulation was discussed in the EU Council in 2018.

Draft directive and regulation on the cross-border distribution of investment funds

On 12 March 2018, the European Commission published proposals for a directive and regulation on the cross-border distribution of investment funds amending the EuSEF and EuVECA regulations and the UCITS and AIFMD directives. The main aim is to eliminate the negative effect on the cross-border distribution of investment funds stemming from different legislations and administrative fees for investment fund managers. To this end, the establishment of a central database of relevant legal regulations (relating mainly to marketing material and administrative fees) at both national and European level has been proposed. The discussions will continue in 2019.

Draft directive on covered bonds (CBs)
On 12 March 2018, the European Commission published a proposal for a new regulatory framework for covered bonds issued by credit institutions. It consists of a directive on the issue of covered bonds and covered bond public supervision and a regulation amending CRR on exposures in the form of covered bonds. The draft directive stipulates the requisites of covered bonds, the requirements for their structural features, the rules for using the "European Covered Bonds" label as the European label and the requisites of public supervision. The draft regulation also amends CRR, especially the provisions relating to the requirements for over-collateralisation and substitution assets.

A package of legislative proposals addressing risks associated with the large stocks of non-performing loans (NPLs) in Europe (a draft amendment of CRR and a draft directive on NPLs)
On 14 March 2018, the European Commission published a proposal for a directive on credit servicers, credit purchasers and the recovery of collateral and a proposal for an amendment to the CRR regulation as regards minimum loss coverage for non-performing exposures. The draft directive strengthens the protection of secured creditors and removes obstacles to credit servicing by third parties and loan sales to further develop secondary markets for NPLs. The draft regulation introduces the instrument of prudential coverage, which requires credit institutions to fully cover the unsecured part of new non-performing exposures by Common Equity Tier 1 as part of Pillar 1 measures. A political agreement was reached in the trialogue on 18 December 2018.

A draft amendment to the directive on motor vehicle insurance
On 24 May 2018, the European Commission published a draft amendment to Directive 2009/103/EC of the European Parliament and of the Council relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability. The draft amendment takes the judgements issued by the Court of Justice of the European Union into account and introduces a definition of use of a vehicle. It also enables Member States to introduce voluntary border insurance checks, increases the minimum amounts of cover and governs the obligation of insurers to treat policyholders' claims history statements issued in another Member State equally to domestic statements. The draft also addresses compensation for damage caused by an insolvent vehicle insurer liable for an accident. The draft directive was discussed in the EU Council in 2018.

A draft regulation on the promotion of the use of SME growth markets
On 24 May 2018, the European Commission published draft amendments to the market abuse regulation (MAR) and the prospectus regulation which aim to facilitate funding of small and medium-sized enterprises (SMEs) via the capital market. More specifically, the draft should address the excessive administrative burden of listing and issuing capital instruments and bonds and increase the level of liquidity on SME growth markets. The draft directive was discussed in the EU Council in 2018.

3.3 GUIDELINES

In addition to technical standards, guidelines are published with a view to ensuring uniform application of law in the EU. The guidelines are non-binding legal acts issued by the European Supervisory Authorities (the EBA, the ESMA and the EIOPA). National supervisory authorities should make every effort to comply with these guidelines.

However, national supervisory authorities may inform the competent European supervisory authority that they do not comply or do not intend to comply with the guidelines. In such cases, they notify the European supervisory authority of the reasons underlying this decision Within the ESAs, the CNB contributed to the preparation of numerous draft guidelines, concerning, for example, PSD 2, MiFID II and CSDR. A total of 19 guidelines were issued in 2018.

More information about the preparation of guidelines and technical standards is available in section *5. International cooperation*.

4. FINANCIAL MARKET SUPERVISION IN 2018

The CNB is mandated to supervise the financial market in the Czech Republic under Act No. 6/1993 Coll., on the Czech National Bank. In 2018, as in previous years, this supervision took the form of off-site surveillance and on-site examinations in financial market entities subject to the regulations in force. The CNB's supervisory work also included licensing, approval and authorisation activities, including the formulation of guidance for the entities supervised, and the application of remedial measures and penalties.[15] In addition, the CNB's supervisory powers covered supervision of the capital market infrastructure. This section contains a summary of basic information about the CNB's supervision of each financial market sector in 2018.

4.1 SUPERVISION OF CREDIT INSTITUTIONS

Supervision of credit institutions involves supervision of banks, foreign bank branches domiciled both in EU countries and outside them, building societies and credit unions. The main aim of supervision of credit institutions is to contribute to safeguarding and maintaining stability in this sector. To fulfil this aim, the CNB applies a risk-oriented approach to supervision with an emphasis on timely identification of risks. The CNB assesses quantitative and qualitative information obtained from individual credit institutions and information about the sector as a whole on an ongoing basis and responds actively to changes in risk factors. This enables it to make continuous and flexible use of its supervisory capacity as needed depending on the identification of significant risks in the sector.

4.1.1 Licensing, approval and authorisation activities

The CNB was supervising 23 domestic banks, including five building societies, and ten credit unions as of the end of 2018. Following a demanding licensing process, a bank licence was issued to the credit union Moravský Peněžní Ústav – spořitelní družstvo. It was converted into a bank on 1 January 2019 and has been operating under the name TRINITY BANK a.s. since 19 February 2019. To a limited extent, the Czech National Bank was also supervising 25 branches of banks from EU/EEA countries. The Czech branch of BNP Paribas Fortis SA/NV closed down and three new branches from EU Member States were established: PARTNER BANK AKTIENGESELLSCHAFT, odštěpný závod (25 September 2018), HSBC France – pobočka Praha (1 October 2018) and SMBC Bank EU AG Prague Branch (12 December 2018). A branch of a Chinese bank (a branch from a third country), Bank of Communications Co., Ltd., Prague Branch odštěpný závod, entered the Czech market after having obtained a banking licence.

Table A.1 – Numbers of entities in the credit institutions sector

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Banks[i]	23	0	0	23
Branches of foreign banks from EU/EEA	23	3	1	25
Branches of foreign banks from third countries	1	1	0	2
Credit unions	10	0	0	10
Credit institutions, total	57	4	1	60

i) Of which five building societies.

15 Enforcement consists in investigating petitions for the opening of administrative proceedings, making decisions on the opening of administrative proceedings, and conducting administrative proceedings, in which fines and remedial measures are imposed, licences revoked or registrations cancelled. Where the law enables penalties to be imposed for the carrying on of unauthorised business, administrative enforcement proceedings are conducted against entities that do not have the relevant authorisation for their activities. In accordance with the law, the CNB publishes statements of final decisions, or full final decisions, in most areas of the financial market in the *Supervision, regulation* section of its website. Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

Table A.2 – Numbers of administrative proceedings in the credit institution sector

Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
30	10	20	28	2

The administrative proceedings conducted in 2018 mostly concerned licence extensions (mostly for selected investment services) and the approval of persons in managerial positions of credit unions.

4.1.2 Off-site surveillance

In 2018, off-site surveillance of credit institutions mainly involved checking compliance with prudential rules, regularly assessing the financial condition of supervised institutions and monitoring other relevant qualitative information. The aim of off-site surveillance was to continuously evaluate the risk profiles of both individual entities and groups on a consolidated basis. Close cooperation between the CNB and partner supervisory authorities in other countries remained a supervisory priority.

On the basis of the risk-oriented approach, the largest part of the CNB's supervisory capacity was used to supervise systemically important institutions. Supervision was also focused on the performance of entities with a short market history, small and rapidly growing entities and groups with specific business models and/or risk profiles. CNB supervisors also paid due attention to the credit union sector despite its minimal and still decreasing market share.

Supervisory work was based mainly on information obtained from the statements and reports regularly submitted by individual entities on a solo and consolidated basis, supplemented by information sent by some entities under the extraordinary reporting duty where a risk factor requiring regular monitoring had been identified. In addition to the regular reports, information from on-site inspections and other sources was used for continuous monitoring of entities and the market. These sources include annual and auditors' reports, public presentations and press releases. Regular (quarterly or half-yearly) meetings with representatives of credit institutions to discuss the latest financial results, risks in the banking industry, strategic objectives, business plans and ongoing conversion projects were also an important source of information.

The main analytical instrument employed in off-site surveillance was regular comprehensive analyses of the financial condition of individual entities and the sector as a whole. The observance of prudential limits and the evolution of key financial indicators – in particular credit portfolio developments (IFRS 9 implementation, provisioning and collateral value, for example), profitability, capitalisation and liquidity – were monitored on a monthly basis for credit institutions. Early warning information was also assessed every month. This helps supervisors to identify potential negative trends in financial indicators. A comprehensive analysis of the credit institutions sector was also produced quarterly.

When performing supervision, the CNB also monitored the situation of credit institutions' parent groups and analysed intra-group transactions on a continuous basis.

In the supervisory review and evaluation process (SREP), the CNB regularly prepares comprehensive evaluations of the risk profiles of individual credit institutions. Risk profiles are determined on the basis of a quantitative and qualitative assessment of the scope of credit institutions' exposures to individual types of risks and an evaluation of each institution's risk management system and control environment quality. In 2018, the SREP was thus again based on monitoring of the institution's key indicators, analyses of its business model, a review of its governance mechanisms, an assessment of the risks to its capital and an evaluation of liquidity and financing risks. Under this process, the CNB set additional Pillar 2 capital requirements for all credit institutions in accordance with the regulatory rules.

In 2018, the CNB also continued to work in cooperation with selected banks on the bank stress testing project. The frequency of the joint stress testing was unchanged from previous years, i.e. the tests were conducted yearly using year-end data. The six largest domestic banks, together accounting for 76% of the assets of the Czech banking sector, took part. Unlike in 2017, market and operational risks and the impact of the scenario on banks' profitability were tested in addition to credit risk. The supervisory stress test methodology was based on the rules of the European Banking Authority (EBA), tailored to the specificities of the Czech banking sector. The aggregated results of the stress tests confirmed the good resilience of domestic banks. Their capital adequacy ratio stayed above the regulatory minimum even in an adverse scenario. In addition to these bottom-up tests,[16] the CNB conducted stress tests of the entire banking sector (top-down tests), the results of which were published on the CNB website.

In 2018, the CNB also continued to assess the quality of resolution plans and their compliance with the requirements of BRRD and the Recovery and Resolution Act. In supervisory colleges, the CNB has long pushed for a requirement for the resolution plans of significant domestic banks to be integrated into the group resolution plans of European banking groups in sufficient detail.

Given the ever-rising number and sophistication of hacking attacks and the new technologies being used in banking, banks continued to work intensively on cyber security. This area was thus a subject of increased supervisory attention, for example with regard to the growing use of cloud solutions from external suppliers and extensive IT outsourcing.

The rapidly changing regulatory environment, to which banks are having to adjust, is putting heavy demands both on them and on the CNB as supervisor. With regard to new regulations, banks paid particular attention in 2018 to the implementation of PSD 2 (effective January 2018 via a new Payment System Act), which is bringing about substantial changes to the operation of banks, including technological ones.

In line with the above, and given the global developments in telecoms technology, the CNB launched a pilot version of the information and communication technology (ICT) risk assessment process as an integral part of the Supervisory Review and Evaluation Process (SREP). This step was fully in accordance with the European Banking Authority's guidelines on ICT risk assessment. The six most significant banks in the sector took part in the pilot version. The assessment process was based both on supervisory assessment and on self-assessment by the banks themselves. It consisted of two main parts – an assessment of institutions' governance systems and ICT strategies and an assessment of their ICT risk exposures and ICT risk management systems. Once the pilot version has been completed, the ICT risk assessment approach will be incorporated into the Supervisory Review and Evaluation Process and extended to all credit institutions in 2019.

A significant increase in the amount of credit provided to households, primarily due to the favourable economic conditions, was observed in previous years. The CNB therefore intensified its supervision of such lending. In this context, it conducted a broad-based survey of banks to evaluate their compliance with the quantitative requirements set out in Supervisory Benchmark No. 1/2017 on the provision of loans to households and a simultaneous quantitative assessment of the volumes and quality of new retail lending. The aim of the CNB's supervisory work is to monitor the functionality and effectiveness of credit institutions' governance systems so as to ensure that such lending is sound and sustainable and to avoid excessive growth in credit institutions' risks due to softening lending standards.

CNB supervision in the credit union sector focused mainly on areas where shortcomings had been identified in the past. These areas included the credit portfolio (IFRS 9 implementation, sufficient provisioning, financing of groups of connected persons and compliance with regulatory limits), the origin of credit unions' capital, the use of outsourcing services and compliance with the conduct of business rules, especially as regards the provision of deposit products.

16 The CNB applies two approaches when stress testing the banking sector. In the top-down macro approach, the CNB performs the tests itself on the basis of the data it has on the banking sector. In the bottom-up micro approach, the relevant bank conducts the test on the basis of its own data using the methodology and scenarios set by the CNB. For more details on the stress test methodology and results, see the CNB website *Financial stability > Stress testing*.

The off-site surveillance work also involved assessing the competence and integrity of proposed senior officers in banks and approving external auditors of banks and credit unions, lists of shareholders for the purposes of banks' general meetings and the inclusion of interim profits in regulatory capital.

The CNB also focused on compliance with the conduct of business rules and consumer protection rules in its supervision of credit institutions in 2018. Conduct of business supervision concentrates on checking compliance with the sector-specific laws governing the activities of credit institutions[17] and with other laws that may affect institutions' conduct towards clients and impose further duties on them.[18] Supervisors focus mainly on determining whether credit institutions' internal processes are compliant with these laws and whether conditions are in place to enable institutions to provide services to their clients with proper professional care. As for consumer protection, supervisors focus on whether credit institutions engage in unfair business practices with respect to consumers under the Consumer Protection Act.

Off-site conduct of business surveillance either deals with specific cases in specific credit institutions or examines a specific market area across all credit institutions in thematic investigations. Several thematic investigations revealing systemic shortcomings in individual credit institutions, and in some cases in most institutions on the market, were conducted in 2018. The thematic investigations were focused systematically on the procedures for proposing changes to master agreements on payment services, the provision of pre-contract information when opening an account via the internet, the transfer of amounts owed from accounts in the enforcement of judgements or distraints, the configuration of the system for dealing with complaints, the opening of payment accounts by minors and other areas. Supervisors sought voluntary remedy of the shortcomings detected in thematic investigations by credit institutions themselves.

With regard to the opening of payments accounts by minors, the CNB published a supervisory benchmark in which it pointed to banks' duty to open basic payments accounts for minors and the need to keep records of the persons authorised to act on minors' behalf, as the thematic investigations revealed that some institutions refuse to open accounts at the request of minors even though they are obliged to maintain basic payment accounts for them.

In 2018, off-site surveillance in the area of the provision of investment services by credit institutions was focused on fulfilment of the obligations arising from the new legislation arising from MiFID II and MiFIR. Increased attention was paid to product governance, where information about credit institutions' procedures was collected. The impacts of the new legislation in respect of obtaining a wider range of information from clients were also reflected in the content of submissions received from the public. The CNB also focused on compliance with the requirements set out in the new legislation in the area of enhanced market transparency, where it concentrated on the disclosure of data on transactions concluded via approved data publication systems.

Supervision of banks' activities as investment fund depositaries is also a part of off-site surveillance of credit institutions. This is due mainly to depositaries' essential role in safekeeping and registering investment funds' assets and checking certain activities of management companies and monitoring investment funds' resources on an ongoing basis. As a depositary's job involves protecting the rights and legitimate interests of investors in investment funds, it is vital for the depositary's control function to be correctly configured and fully functional. The CNB therefore continued to supervise compliance with depositaries' duties arising from national and European legislation in 2018.

4.1.3. On-site examinations

Both comprehensive and more detailed examinations were conducted in the credit institutions sector in 2018. A total of 12 examinations were undertaken in banks during the year. Two of them were comprehensive and the rest were partial examinations. In credit unions, four examinations were performed, one of which was comprehensive. Table A.3 gives an overview of the areas of focus of these examinations.

17 In this context primarily the Act on Banks, the Building Savings Schemes Act, the Act on Credit Unions and the Payment System Act.

18 For example the Civil Code in relation to contracts with clients and the Civil Procedure Code and the Distraint Procedure Code in relation to distraints.

Table A.3 – Focus of examinations in credit institutions in 2018

	Credit Risk	ICAAP	Market risks, including IRRBB	Liquidity risk	Internal control system	Provision of payment services	Provision of investment services	Operational risk	Cooperation with law enforcement authorities	IS/IT risks	AML/CFT	Money-changing activities
Banks	4	2	4	2	2	6	4	5	3	3	7	5
Credit unions	4	4	2	1	1	0	-	2	0	1	1	-

On the basis of the results, the entities examined were called on to eliminate the shortcomings identified. The CNB is monitoring the elimination of the shortcomings on an ongoing basis using regular information from the entities examined.

Examinations of credit risk management

Eight examinations were conducted in the area of credit risk management, four of them in banks and four in credit unions. All these examinations were focused on compliance with prudential rules arising from regulatory rules, especially the configuration of governance systems and risk management functions in credit institutions. The examinations were also focused on property financing, both in the corporate sector (especially property developer financing) and mortgage lending in the household sector. On-site examinations also examined compliance with the Supervisory Benchmark on the provision of loans to households by credit institutions issued by the CNB in November 2017. In cooperation with the Financial Stability Department, compliance with the Recommendation on the management of risks associated with the provision of retail loans secured by residential property was also assessed. Where relevant, the inspection team also assessed compliance with remedial measures imposed in previous examinations.

The shortcomings identified in the inspections varied significantly from institution to institution in terms of scale, nature and seriousness. The most frequently identified shortcomings in the entities inspected included errors in the creditworthiness assessment process, where insufficiently prudent assessment of expected income from a project or the timing of that income was identified in some cases. In the case of loans to households (primarily in the unsecured consumer credit segment), the inspectors also found that the process for assessing the income and outgoings of the customer or household was insufficiently prudent. Credit institutions often aim to provide such credit quickly and effectively and use automated credit assessment and approval processes to do so. However, these processes are unable to identify the specific situation of individual clients and can lead to an incorrect assessment of their creditworthiness.

Shortcomings were also identified repeatedly in collateral valuation and record-keeping. Among the most frequently identified shortcomings of this type were insufficient valuation traceability, where it was unclear how or on what data the value had been determined, insufficient conduct of (or failure to conduct) regular revaluation of the portfolio of property held as collateral for loans, omission of high correlation between some collateral values and the borrower's credit quality, and insufficient monitoring of collateral insurance.

In some cases, non-compliance with the classification of receivables rules was identified, although the number of such cases is relatively small due to the favourable economic situation. The repayment probability was assessed in the above cases not on the basis of the customer's ability to service the loan from his own resources, but taking into account sources stemming from collateral. In these cases, the institutions examined had not assessed the loans as default receivables but had recorded them incorrectly as non-default receivables.

Shortcomings in evaluating and recording groups of economically connected persons continued to occur quite often, especially insufficient evaluation of the links between the customer and other entities arising from the business and financial relations between them. In the area of debt recovery, shortcomings were detected in the mandatory rules for the transfer of claims under the administration of the debt recovery unit and in the determination of expected cash flow scenarios for the purposes of calculating provisions.

Based on the nature, scale and seriousness of the findings, the entities examined were called on to eliminate the shortcomings and to regularly report the remedial measures adopted, or enforcement proceedings were opened against them with a view to imposing a duty to adopt a remedial measure to eliminate the shortcomings identified. Some institutions were required to maintain their capital ratio above the minimum level in order to cover the risks and shortcomings identified in the on-site examinations.

Examinations of internal capital systems (ICAAP)

Six on-site examinations focused on evaluating internal capital systems (ICAAP) were conducted in 2018. Two examinations were performed in banks and four in credit unions. The most common shortcomings identified included problems in the verification and consistency of assumptions made and in planning methods, failure to take sufficient account of specific risks undertaken (such as inadequate concentration risk quantification) and shortcomings in the stress testing concept (such as failure to include all material risks and the absence of a holistic stress scenario). Administrative proceedings to impose a duty to maintain higher capital ratios were opened for two credit unions. With the exception of one credit union, however, the shortcomings identified did not jeopardise the ability of the banks and credit unions examined to cover the internal capital requirements with available capital.

Examinations in the area of market risk management

Five on-site examinations focused on market risk management were conducted in 2018, four of them in banks and one in a credit union. One inspection in a bank focused exclusively on interest rate risk of the investment portfolio. Shortcomings were identified mainly in the areas of segregation of conflicting duties and the classification of instruments into the investment and trading portfolios and also in VaR model calculations and in models for estimating the time to revaluation of assets and liabilities. However, the shortcomings identified did not jeopardise the financial situation and capital of the entities examined or their ability to manage such risks. The examinations also focused on regulatory reporting in the area of market risks and risks associated with financial market trading. The shortcomings identified mainly concerned interest rate risk reporting, derivatives reporting and outsourcing of calculations. Some of the shortcomings detected were eliminated during the examinations and the CNB is continuing to monitor progress with the adoption of remedial measures.

Examinations in the area of liquidity risk

Liquidity risk management was verified in on-site examinations in two banks and one credit union in 2018. The shortcomings most often identified related to insufficient or unclear definition of risk appetite and inconsistency of components of the liquidity risk management system. The other shortcomings included the setting of limits, stress scenarios that failed to take sufficient account of relevant risk factors and emergency plans that were not properly integrated with stress testing and failed to define relevant indicators of exceptional events. Nonetheless, the shortcomings identified did not jeopardise the ability of the entities examined to manage liquidity risk.

The examinations also verified regulatory reporting of liquidity risk. This involved checking reporting of the liquidity coverage ratio (LCR) and additional monitoring metrics (AMM) for liquidity in two banks and one credit union. The most significant shortcomings included incorrect determination of flows arising from some types of assets and liabilities and failure to report on a consolidated basis. In other cases the shortcomings were formal and had no material impact on the figures reported.

Examinations of internal control systems

Internal control systems (compliance and internal auditing) are also traditionally checked as part of the individual areas examined (e.g. credit risk management and market risk management). However, this may not be sufficient to obtain a comprehensive picture of the configuration of the overall internal control system framework. In 2018, therefore, the CNB continued to examine internal control systems as a separate area, doing so specifically in two banks and one credit union. These activities enabled the CNB to aggregate the findings from the individual examination areas and to identify those signalling misconfiguration of the internal control system and thus assess the quality of the compliance and internal audit functions of the credit institutions examined. By putting an emphasis on the quality of internal control systems, the CNB aims, among other things, to continuously encourage credit institutions to enhance the compliance of their activities with legal rules and to allocate sufficient capacity and funds for this vital control activity.

Examinations of the application of advanced methods for determining capital requirements
During 2018, the CNB's expert teams for the use of advanced methods for determining capital requirements continued their discussions with all regulated institutions that apply advanced approaches to calculate capital requirements for credit risk, market risk and operational risk. The CNB also communicated on an ongoing basis with foreign supervisory authorities, especially the ECB.

The CNB's examinations in 2018 focused mainly on continuous verification of the procedures of banks that have received approval to use the IRB approach. Supervisors also dealt on an ongoing basis with banks' applications for consent to change their IRB models by means of a joint application from their parent bank (several dozen applications for, and notifications of changes in, the IRB approach were handled in 2018). The discussions between the CNB and the banks focused mainly on assessing the compliance of the banks' procedures with Decree No. 163/2014 Coll.[19] and the CRR.[20] Most applications were approved (some with additional conditions), although in some cases banks were asked for additional information or for additions to be made to applications for changes. Cooperation with banks at an expert level involved regular meetings at which CNB representatives discussed planned changes to IRB models and methodological issues with the relevant members of staff. In 2018, meetings were also held at an expert level with the ECB and other supervisory authorities regarding the joint approach to the assessment of IRB models. Much of the capacity of the inspection team was devoted to preparations for approving changes in the definition of default according to the new EBA guidelines in this area.

No VaR model was validated in 2018, but structural changes in the composition and size of the trading portfolio were monitored in one of the banks with an approved VaR model. VaR models were monitored on an ongoing basis, with a particular focus on the number of times VaRs were exceeded in back-testing and the ratio of the stressed VaR to the VaR. The assessment of the reliability of the models also used EBA benchmarking, which is performed annually. In 2018, a proceeding on option valuation model validation was renewed with respect to one institution.

The validation of a material change to a group advanced internal model for the calculation of the capital requirement and economic capital for operational risk (an AMA model) of one bank was completed in cooperation with foreign supervisory authorities in 2018. Compliance with the conditions for approving the use of the ASA approach for the calculation of capital for operational risk was validated in one consolidated banking group in 2018.

Examinations of operational risk management
Four examinations were completed and one examination was started in banks and credit unions in 2018. The examinations focused chiefly on the appropriateness of the operational risk management system with regard to the nature, scope and complexity of the institution's activities. Emphasis was placed on the appropriate choice, sufficient implementation, maturity and interconnectedness of the tools used to manage operational risk. Considerable attention was paid to the management of outsourcing-related risks and compliance with the requirements for determining the capital requirement for operational risk. The most frequent shortcomings identified concerned the division of responsibility for operational risk management, processes associated with the collection and assessment of information on operational risk events, the use of indicators capturing potential changes in exposure to operational risk, and the identification and recognition of outsourcing relationships. Last but not least, compliance with remedial measures arising from previous examinations was assessed and inspected.

Examinations of IS/IT risk management
Examinations in the information systems and information technology (IS/IT) risk management area were conducted in three banks and one credit union in 2018. They were focused on the usual areas, such as IT governance and IT operation and development, and also on areas of increased interest to the CNB, such as security of access to information systems (including security monitoring) and cybersecurity (including resilience to advanced cyber threats). Owing to the development of the use of cloud computing in credit institutions, the examinations verified outsourcing in IT, especially compliance with the CNB's expectations regarding the use of cloud computing[21] in regulated institutions.

19 CNB Decree No. 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms, as amended.

20 Regulation (EU) No 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

21 The provision of IT services (e.g. servers, storage, databases, networks and software) via the internet.

Shortcomings were identified in IS testing and operation, analysis of IS risks, IT outsourcing, IS access security management and security monitoring. The CNB called on the institutions examined to take remedial measures responding to the shortcomings identified. It continuously monitored and assessed compliance with remedial measures agreed in on-site examinations.

The CNB also continuously monitored and assessed compliance with remedial measures agreed in previous on-site examinations. As regards cyber security, the CNB further developed its partnership with the National Cyber and Information Security Agency, with an emphasis on aligning the cyber security requirements applying to credit institutions.

Examinations in the area of AML/CFT[22]

AML/CFT examinations were focused primarily on verifying the efficiency and effectiveness of the measures meant to protect credit institutions from being used for money laundering and terrorist financing and to create conditions for detecting such conduct.

Four examinations were conducted and completed in banks and a further three examinations were started in 2018. One off-site examination was conducted in the credit union segment. The shortcomings identified in credit institutions related mainly to the duty to perform client vetting and enhanced client vetting, the identification of risk factors and the creation of client risk profiles. All the institutions in which the examinations revealed shortcomings were called upon to take remedial measures. The CNB is continuously monitoring their implementation.

The CNB conducted the second round of a large-scale AML/CFT survey in the credit institutions sector in 2018. Its results were used for CNB supervisory purposes and were also presented to sector representatives in aggregated form. The CNB was actively involved in an evaluation conducted by the Council of Europe's MONEYVAL Committee[23] during 2018.

The long-running cooperation between the CNB and the Financial Analytical Unit (FAU) continued in 2018. It consisted primarily in exchange of information and experience relating to inspection work and in assessment of AML/CFT risks.

Examinations in the area of conduct of business

Eight on-site examinations were performed in the conduct of business area in 2018, all of them in banks.

In six banks, the on-site examinations focused on compliance with disclosure duties by payment service providers. The most frequent shortcomings included gaps in obligatory information, the provision of information in a different manner than on a durable information medium, and shortcomings in the provision of information about changes to a master agreement. The inspectors also found shortcomings in the provision of information about time limits for executing transactions, minor errors made by bank staff and related shortcomings in the governance system.

Examinations were conducted in four banks focusing on compliance with legal regulations in the area of conduct of business and professional care in the provision of investment services. Shortcomings were identified in the storage of communications with clients and potential clients, where the phone lines of the relevant staff had not been recorded or sufficient records of communications with clients had not been made (especially as regards face-to-face contacts). Shortcomings were also identified in the requesting of information from clients, the provision of information to clients, the management of client assets, the processing of clients' orders and the keeping and reporting of a transactions and orders book.

Examinations of money-changing activities were conducted in five banks. Shortcomings were found in information on exchange rate lists, the provision of pre-contract information, the amounts of fees entered (errors due to manual errors made by bank staff) and the reporting on premises before the launch or termination of their activity.

22 Anti-Money Laundering/Combating the Financing of Terrorism.

23 The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

Cooperation with law enforcement authorities was checked in three banks. Shortcomings were identified in compliance with time limits and processes connected with the processing of applications, in the record-keeping process and in related control activities.

Activities of the depositaries of investment and pension management funds were examined in two banks. This included checks of compliance with the duties arising from national and EU legislation. The shortcomings identified related to the internal governance system and risk compliance management, outsourcing control, the performance of control duties and cash flow monitoring.

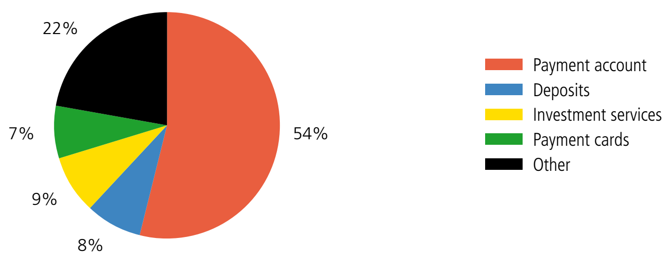
In 2018, an examination was completed in one building society focusing on changes to, and the termination of, building savings contracts with planholders. Shortcomings were found in communication with planholders during contractual relationships, in which the building society failed to proceed in a consistent manner, failed to provide planholders with clear information and failed to provide information in a sufficient scope. Shortcomings were also identified in the process of withdrawing from contracts by the building society.

Petitions for the opening of administrative proceedings were submitted in four cases.

4.1.4 Assessment of information from submissions made by members of the public

In 2018, the CNB received a total of 550 submissions from the public relating to the activities of credit institutions and concerning conduct of business and consumer protection.[24] This represented a decline in the number of submissions compared with 2017, when the CNB had received 657 such submissions. The following Chart A.1 shows which services provided by credit institutions were referred to in the submissions made by the public in 2018.

Chart A.1 – Subjects of submissions from the public concerning the activities of credit institutions in 2018



The submissions made by members of the public concerned, for example, the provision of payment services, communication with clients, the handling of clients' complaints and claims, and fees and interest rates.[25] The most submissions made by the public related to the duties imposed on credit institutions by the Payment System Act in situations where they act as payment service providers. The submissions relating to the provision of payment services mainly concerned the execution of payment transactions, compliance with the time limits for executing transactions, the revocation of payment orders, unauthorised payment transactions, exchange rates applied to foreign payment

24 Excluding submissions concerning the provision of consumer credit by credit institutions.

25 Where a submission pertains to an area where consumers can seek compensation in a private law case, they are referred to the Office of the Financial Arbitrator, where they can pursue their claims further.

transactions and the use of payment cards. The high frequency of submissions in this area can be attributed primarily to the fact that the provision of payment services is one of banks' main activities and is experienced by clients on a daily basis. Both individual and systemic shortcomings were identified on the basis of submissions from the public in this area. A large proportion of the submissions from the public related to master agreements on payment services and concerned credit institutions' procedures for opening, maintaining or closing payment accounts. Supervisors therefore paid attention to the provision of payment services and compliance with the duties laid down in the Payment System Act.

The number of submissions from the public regarding investment services provided by credit institutions increased by more than 60% year on year to 47 in 2018. The increase reflected new legislation under MiFID II requiring investment firms to request a wider range of information from clients in order to define relevant target markets and clients' membership of defined target markets. The justified requests made by supervised entities, which mainly concerned information about clients' wealth for the purposes of assessing their ability to withstand losses, were regarded by some clients as an intolerable intrusion into their privacy.

Submissions from the public can help uncover errors of various degrees of seriousness made by credit institutions in certain areas. Supervisors assess whether remedial measures will be sufficient or whether the matter should be resolved in an administrative proceeding depending on the degree of seriousness of the error, the effectiveness of possible remedial measures and the ability of such measures to prevent similar errors from occurring in the future.

4.1.5 Enforcement

A total of 12 new administrative enforcement proceedings were opened in the area of supervision of credit institutions in 2018. Six decisions became final and conclusive, with a fine and a remedial measure being imposed in one case, only a fine being imposed in two cases and a remedial measure being imposed in three cases. Fines totalling CZK 3,350,000 were imposed.

4.2 SUPERVISION OF INSURANCE COMPANIES

The aim of CNB supervision in the insurance sector is to safeguard and maintain the financial stability of the sector and to protect policy holders, insured persons and beneficiaries. To meet this aim, the CNB considers decisions on licence, permit and registration applications and prior consents under special legal rules, and especially the assessment of compliance with the current legislative and regulatory framework applicable in the Czech Republic, to be the key supervisory activities in insurance sector supervision. To fulfil its insurance supervisory objectives, the CNB obtains, verifies and, where necessary, enforces information provided by supervised entities. It may also impose remedial measures, decide to impose sanctions if necessary, and conduct administrative proceedings.

4.2.1 Licensing, approval and authorisation activities

A total of 27 domestic insurance companies and one reinsurance company were subject to CNB supervision as of the end of 2018. A total of 20 branches of foreign insurance companies were subject to supervision by the CNB to a limited extent. Two branches from the EU closed down: AIG Europe Limited, organizační složka pro Českou republiku and Stewart Title Limited, organizační složka. One new branch from Lichtenstein, ASPECTA Assurance International AG, pobočka pro Českou republiku, provided notification of its activities in the Czech Republic.

Table A.4 – Numbers of entities in the insurance sector

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Insurance companies (including branches and reinsurers)	49	1	2	48
of which:				
domestic insurance companies	27	0	0	27
branches of insurance companies from the EU/EEA	21	1	2	20
reinsurance companies	1	0	0	1

Table A.5 – Numbers of administrative proceedings in the insurance sector

Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
12	2	10	8	4

A challenging and time-consuming proceeding regarding an application to establish a new life insurance company, Simplea pojišťovna, a.s., a wholly owned subsidiary of Partners Financial services, a.s., was conducted in the period under review. The ongoing merger of Kooperativa pojišťovna, a.s. and Pojišťovna České spořitelny, a.s., Vienna Insurance Group, a member of the same group VIG (Vienna Insurance Group), was a major event in this financial market segment.[26]

4.2.2 Off-site surveillance

The CNB's supervisory activities in the insurance sector generally focus on compliance with the prudential rules. The key elements of off-site supervision of insurance companies are regular assessment of the financial condition and solvency situation of the supervised insurance companies, assessment of compliance with control system requirements and supervision of compliance with the requirements for regulatory reporting and information disclosure. In 2018, the CNB assessed the solvency and capital positions, risk profiles and performance of the supervised insurance companies, doing so primarily by evaluating risk, economic and technical insurance indicators. It obtained source data for these key supervisory activities from statements submitted in compliance with Solvency II and other regularly submitted statements. Ongoing communication with insurance companies, comprising information-gathering meetings with representatives of the top management of insurance companies is also an important part of supervisory work.

Risk-oriented, prospective and comprehensive supervision of insurance companies, in which the proportionality principle is applied, is performed on the basis of the supervisory review process (SRP) implemented by the CNB subject to the Solvency II requirements. In this process, the CNB uses instruments that help it to identify relevant shortcomings and risks in time, to assess their importance and seriousness, and subsequently to take appropriate steps and measures where necessary. Quarterly evaluation of selected indicators monitoring key aspects of the activities of insurance companies is of key importance in this regard.

The scope of supervision of individual insurance companies is based mainly on the nature, scope and complexity of their activities and on their overall risk profiles. To this end, the CNB conducts regular assessments of insurance companies' risk profiles and financial and capital condition and also of the adequacy of their management and governance

26 On the effective date of the merger, i.e. on 1 January 2019, Pojišťovna Kooperativa a.s. became the successor company and Pojišťovna České spořitelny, a.s., Vienna Insurance Group, ceased to exist.

processes. Analytical and other supervisory activities are performed more often and in greater detail for systemically important insurance companies and for high-risk entities.

In 2018, the CNB continued to use information submitted by, and intensive communication with, insurance companies to assess the quality of implementation of all three pillars of Solvency II. The key areas discussed with insurance companies and focused on by the CNB have long included the methodology for calculating the best estimate of technical provisions, compliance with the requirements for configuring the risk management system, the issue of key functions, and internal risk and solvency assessments.

The key areas of CNB prudential supervision in the insurance sector included continuing activity in the area of premium sufficiency management in third-party vehicle liability insurance and assessing the adequacy of technical provisions for covering all claims arising from vehicle liability policies.

As regards supervision of vehicle liability insurance, the CNB responded to developments in the market in recent years where changes in the premium amount had failed to sufficiently cover the increase in the costs of meeting obligations arising from this type of insurance. The CNB had already communicated its expectations to insurance companies in 2016, its main objective having been to improve the quality of governance systems in the area of premium sufficiency management in vehicle liability insurance providers. In 2018, the CNB continued to assess whether decision-making processes and internal control mechanisms were appropriately configured in order to ensure that prospective proceedings were safeguarded and claims arising from third-party liability insurance could be settled at any time. The responsibility of boards of directors for continuously fulfilling this statutory requirement is considered a crucial aspect by the CNB.

In 2018, the CNB continued to focus on assessing compliance with the main principles, procedures, methods and criteria which a vehicle liability insurance management system should satisfy at the individual level of all vehicle liability insurance providers. Supervisory work in this area was focused mainly on evaluating whether premium sufficiency management systems were suitably configured, including whether the methods used to measure premium sufficiency and the quality of internal processes were appropriate. Due to the responsibility of insurance companies' boards of directors, the assessments were focused on the scope and quality of the information submitted to insurance companies' boards of directors and their degree of involvement in the governance system. The results of the analysis of the documents submitted were subsequently discussed with representatives of the management of insurance companies. Given the situation in the vehicle liability insurance market, the CNB will continue to address this area intensively. It will expand its activities to include quantitative analyses focused on checking premium sufficiency in individual insurance companies.

Given previous and expected interest rate developments, the CNB has long also focused on assessing insurance companies' ability to generate investment yields in the medium term to cover guarantees arising from life insurance policies. The CNB is focusing mainly on the quality of risk management and asset and liability management systems in this area.

The CNB also stress-tests the insurance sector's resilience to pessimistic future economic scenarios once a year. Most domestic insurance companies were included in this testing in 2018. The 2018 stress scenario was again derived from the adverse scenario used to test the resilience of the banking sector. It assumed a fall in domestic economic activity as a result of adverse developments in the Czech Republic's main trading partner countries and increased uncertainty in financial markets associated with a sharp rise in investors' risk aversion to the EU and emerging economies. These adverse developments were also linked with a fall in the stock market and a drop in property prices. The scenario for insurance companies was extended to include a 10% decline in premiums written for the two most significant sectors of each insurance company while maintaining the same level of costs. The extended scenario additionally tested how the capitalisation of insurance companies would be affected if floods were to occur.

The overall solvency ratio of the insurance companies tested after the application of shocks for market and insurance risks was 177%. The participating insurance companies accounted for 93% of the domestic insurance market based on gross premiums written in 2017.

In the overall assessment, the stress test results thus demonstrated that the sector as a whole was sufficiently capitalised even under Solvency II and was able to absorb major changes in risk factors.

In the insurance sector, CNB supervision generally focuses on compliance with the rules of conduct with professional care and the rules of consumer protection and appropriately configured governance systems and internal control systems (compliance). Numerous supervisory examinations were conducted to this end, aimed mainly at identifying systemic shortcomings in various areas of activity of insurance companies and branches of foreign insurance companies (e.g. arranging insurance, administering insurance in operational systems, terminating insurance and performing loss adjustment) and identifying unfair business practices.

As regards conduct of business supervision, the CNB in 2018 conducted supervisory interviews in selected insurance companies and branches of foreign insurance companies to test the configuration of internal processes and the content of the key information (PRIIPs) which these entities are obliged to provide to retail clients interested in insurance products with an investment component under the directly applicable PRIIPs Regulation. Attention was also focused on the preparations for the new insurance distribution duties and requirements under the Act on Insurance and Reinsurance Distribution.[27]

In the area of conduct of business supervision, the CNB carried out thematic surveys to verify the configuration of processes and rules in certain activities of supervised entities. These also involved eliminating systemic shortcomings and, where appropriate, unifying procedures and rules across the insurance market. The subjects of the thematic surveys conducted last year included fleet insurance and the possibility of becoming an insured person in an insurance policy between two entrepreneurs (an insurance company or a branch of an insurance company and an entity providing services or selling goods, such as a credit institution, a consumer credit provider or a electricity or gas supplier). A thematic survey was also used to verify internal processes and rules for the termination of unit-linked life insurance policies in operational systems, especially in relation to the provision of information to policy holders about the end of unit-linked life insurance and related insurance claims.

The last-mentioned survey revealed uncoordinated practices on the market regarding the provision of information to policy holders about the end of unit-linked life insurance and related insurance claims. As a result, the CNB prepared a supervisory benchmark regarding some duties of insurance companies relating mainly to the end of unit-linked life insurance policies in the event of survival or on the date set as the end of insurance.[28] The supervisory benchmark emphasises the need for proper configuration and maintenance of insurance companies' operational systems to reflect current information about the insurance relationship (to ensure, for example, that no premium billing is generated for the next insurance period if the life insurance policy has ended) and also the duty to act in the client's best interest. The latter also encompasses the insurance company's duty to inform policy holders (beneficiaries) of their right to claim in the event of survival or on the date set in the insurance policy as the end of insurance.

Following up on its supervisory findings in the conduct of business area, the CNB also published a supervisory benchmark regarding the certainty of determining the scope of insurance including exclusions. The benchmark puts an emphasis on the provision of clear understandable and proper information to potential clients about the scope of insurance, including any exclusions, and especially on an insurance company's duty to avoid the use of vague terms without detailed specification in insurance terms and conditions and in marketing materials. Insurance companies should monitor whether the terms used in insurance terms and conditions are understood correctly, for example when testing an insurance product, in complaints received or in communications with injured parties during the loss adjustment process.

27 Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution, as amended.

28 This supervisory benchmark was published on the CNB website as Supervisory Benchmark No. 1/2019 regarding some duties of insurance companies relating mainly to the end of unit-linked life insurance policies in the event of survival or on the date set as the end of insurance.

In 2018, the CNB also published information relating to life insurance policies in response to decisions of courts and the Financial Arbitrator finding life insurance policies to be void and to articles published in the media in such cases. The public was informed that decisions of the court and/or the Financial Arbitrator cannot be applied automatically to other insurance policies. The CNB also pointed out that the situation where an insurance policy is held to be void may in certain cases be disadvantageous to the client (who will be obliged to return the insurance benefit) and may give rise to other consequences (such as an additional tax duty).

Other major activities in the conduct of business area related to cooperation with EIOPA on extensive thematic surveys directed either at selected insurance companies and branches of foreign insurance companies or at all supervised entities. For example, a survey was conducted in the area of consumer protection in travel insurance to identify possible causes of harm that consumers may suffer in relation to product design, distribution processes and selling practices.

Another survey conducted in collaboration with EIOPA consisted in the collection of information relating to consumer trends and complaints in 2017. In addition to the collection of quantitative data, the aim of this survey was to identify the main trends in financial innovation and topical issues in the conduct of business area in insurance. EIOPA announced that the survey would be expanded next year to include information about major financial and technological innovations, thematic questions regarding market developments and qualitative data on sales and distribution channels.

The CNB also launched pilot monitoring of the implementation of the requirements set out in the IDD, which was transposed into the Act on Insurance and Reinsurance Distribution. The pilot monitoring focused on the collection of quantitative and qualitative data on product governance (the creation, testing and review of insurance products), conflicts of interest and the management and monitoring of distribution networks.

4.2.3 On-site examinations

A total of 10 examinations were conducted in insurance companies in 2018. In the non-life insurance area, the examinations focused mainly on motor third-party liability insurance, especially technical provisions, premium sufficiency and the premium sufficiency management system. The main shortcomings in the premium sufficiency management system included an insufficient definition of premium sufficiency, failure to test the functioning of the system and insufficient reporting and documentation. An insufficient motor third-party liability insurance premium was additionally identified in two cases. The examinations also focused on the assessment of correct breakdown of liabilities into risk-homogeneous categories (segmentation) and the determination of the contractual limits of a contract for the calculation of technical provisions under Solvency II. The main findings included incorrect classification of liabilities into risk-homogeneous groups, shortcomings in the process of setting the contractual limits of a contract and missing documentation.

Two of the examinations focused on quality control in insurance companies' distribution networks. Shortcomings were identified in the extent of pre-contract vetting of a distributor and in distribution activity quality control during contractual cooperation with a distributor. Above all, there were no effective preventive measures in place to prevent misselling[29] and unfair commercial practices. Shortcomings in control mechanisms were also identified in cases where insurance was offered through insurance policy holders, i.e. fleet insurance, or was offered as an ancillary service to a product or service being offered. One examination focused on the negotiation process through an automated system, which was assessed as being insufficient as regards the traceability of the negotiation process because the answer options were too general and the specificities of each case where impossible to capture. Shortcomings in the assessment of the content of complaints about the activities of insurance intermediaries and follow-up remedial measures were identified in two cases. In two cases, the exemptions in policy terms and conditions were found to be ambiguous, giving rise to potential differences between insured persons' expectations and insurance companies' approach to loss adjustment.

29 A situation where an insurance product or specific parameters of a concluded insurance contract do not meet clients' requirements and needs.

Three examinations focused on the duty of insurance companies to act with professional care in loss adjustment. Shortcomings concerned checking of outsourced activities, procedures for reporting in the claim adjustment file, late registration of insurance losses and loss adjustment delays. The inspectors also identified shortcomings in loss adjustment, both material and in the manner and content of communication, and in traceability of processes, control processes and the regulation of procedures in internal rules.

Three examinations assessed insurance companies' contract administration procedures. The examinations identified shortcomings in potentially misleading and unclear communication with clients in the termination of insurance. Four examinations also focused on compliance with duties under the Consumer Protection Act relating to the subject of the examination. In three cases, attention was drawn to the risk of unfair commercial practices in the relevant inspection findings.

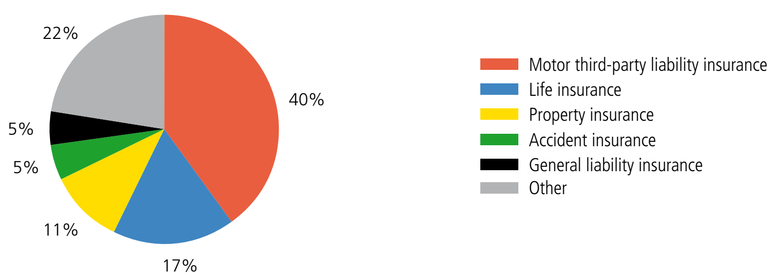
Further to the results of the examinations, insurance companies took remedial measures, the implementation of which is being continuously monitored and assessed. A proposal to open administrative proceedings was submitted in one case.

4.2.4 Assessment of information from submissions made by members of the public

In its supervision of insurance companies and branches of foreign insurances, the CNB drew to a large extent on findings or indications derived from submissions received from members of the public. These are an important source of information on insurance companies' current and long-term behaviour on the market and on their conduct towards their clients and other persons and help the CNB assess the adequacy of their rules and procedures. The CNB took a comprehensive view of the indications derived from such submissions and, under its risk-oriented approach to supervision, paid most attention to indications of systemically significant deficiencies, to repeated indications of shortcomings in a particular area of an insurance company's activities and to indications of unfair business practices.

A decline in the number of submissions from the public compared with the previous year was recorded in the insurance sector. The CNB received 620 such submissions in 2017 and 510 in 2018. However, the latter figure is similar to that recorded in 2016. Chart A.2 gives information about the subjects of the submissions from the public concerning the activities of insurance companies in 2018.

Chart A.2 – Subjects of submissions from the public concerning the activities of insurance companies in 2018



A large proportion (more than 50%) of the submissions from the public expressed dissatisfaction with insurance companies' activities in dealing with claims. The most common reasons for these submissions included disagreement with claim amounts, claim rejections and reasons for claim amounts, loss adjustment delays and insufficient communication by insurance companies. The submissions also concerned insurance companies' behaviour in terminating insurance and providing information about insurance, especially the provision of inaccurate, incorrect or incomplete information when arranging insurance.

4.2.5 Enforcement

Four administrative enforcement proceedings were opened in the area of supervision of insurance companies in 2018. Six decisions became final and conclusive. Remedial measures were imposed in four cases, a fine was imposed in one case and a decision to approve a short-term funding plan was issued in one case. A fine of CZK 2.8 million was imposed in the area of supervision of insurance companies in 2018.

4.3 SUPERVISION OF PENSION MANAGEMENT COMPANIES AND RETIREMENT FUNDS

Supervision of pension management companies (PMCs) and retirement funds is also based mainly on continuous assessment of compliance with the regulatory rules. In this sector, the CNB concentrates primarily on assessing PMCs' compliance with the capital adequacy requirements, sufficiency of the assets of transformed funds, management of the assets of pension funds, compliance with investment limits by funds managed by PMCs and the effectiveness of the control system, especially the risk management system and the asset and liability management system.

4.3.1 Licensing, approval and authorisation activities

As in 2017, the CNB registered eight PMCs, 28 participation funds and eight transformed funds at the end of 2018.

Table A.6 – Numbers of entities in the PMCs and retirement funds sector

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
PMCs	8	0	0	8
Transformed funds	8	0	0	8
Participation funds	28	0	0	28
Accredited entities	17	3	7	13

A decline in the number of accredited entities is usually a result of a lack of interest in carrying on business, as demonstrated by failure to apply for an extension of accreditation after the end of the five-year period for which it is granted.

The CNB conducted a total of eight administrative proceedings in the PMCs and retirement funds sector in 2018. Decisions were made in all cases.

Table A.7 – Numbers of administrative proceedings in the PMCs and retirement funds sector

	Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
PMCs and retirement funds	8	1	7	8	0
Accredited entities	12	3	9	11	1

In 2018, consent to a change in the statute of a participating fund was granted in one case and consent to the discharge of office of director of a PMC was granted in seven cases.

4.3.2 Off-site surveillance

Off-site surveillance in PMCs and funds managed by PMCs was concentrated on assessing their compliance with the regulatory requirements, above all capital adequacy compliance by PMCs, i.e. maintenance of their capital above the capital requirement, and on generally evaluating the capital position of PMCs, including assessment of capital management systems. CNB supervision of transformed funds focused on compliance with the requirement to always cover liabilities with assets. Given the requirement for reliable monitoring of the capital requirement and the requirement to cover liabilities in transformed funds with assets and continuous compliance therewith by PMCs, appropriate configuration of the governance system in this area was also supervised by the CNB. In this context, the CNB focused mainly on assessing the quality of risk management systems with respect to rising interest rates and the risk of inability of transformed funds to cover their liabilities with assets.

The CNB also focused on compliance with the rules for the management of assets of funds managed by PMCs, in particular compliance with the legal and internal investment limits for such funds and the accuracy of the accounting of PMCs' fees for the accounting period.

Off-site surveillance of conduct of business in PMCs is focused mainly on compliance with information duties to planholders and on PMCs' procedures and internal rules for dealing with planholders and procedures for concluding, amending and terminating contractual relationships between PMCs and planholders.

4.3.3 On-site examinations

The CNB conducted an on-site examination in one PMC in 2018. The examination focused on the rules and principles for the conduct of business in the management of assets of transformed and participation funds and follow-up control mechanisms, the process for sending supplementary pension savings statements and the provision of information at the written request of a law enforcement authority.

Shortcomings were identified especially as regards outsourcing of limit checking, limit monitoring, checking of best-execution rules, traceability of analyses of economic benefits, essential elements of annual statements and sending of statements when transferring funds to another PMC. Shortcomings were also identified in cooperation with law enforcement authorities.

Further to the results of the examination, the insurance company took remedial measures, the implementation of which is being continuously monitored and assessed.

4.3.4 Assessment of information from submissions made by members of the public

In 2018, the CNB received a total of 29 submissions from the public in the area of private pension schemes and supplementary pension savings, of which 25 concerned supplementary pension savings and four related to private pension schemes. The flat trend in the number of complaints observed in previous years therefore continued. There are no longer massive migrations of planholders between PMCs and related negotiation and termination of private pension policies or supplementary pension savings.

The number of submissions relating to private pension schemes is falling steadily, as such policies cannot be concluded any longer and the total number of planholders is declining as funds are being transferred to supplementary pension savings. In terms of content, the submissions from the public related mainly to the provision of information by PMCs about products offered and in contractual relationships, payments of savings to planholders, and communication with planholders and dealing with their complaints and claims.

The CNB conducted three thematic surveys in PMCs in 2018. The surveys focused on the essential elements of supplementary pension savings statements, procedures for sending out annual reports of transformed funds managed by PMCs and procedures for failure by planholders to pay contributions and for dealing with unidentified payments. The thematic surveys revealed shortcomings with various degrees of seriousness in some PMCs. These were later rectified by the institutions concerned.

4.3.5 Enforcement

No administrative enforcement proceedings were opened in the area of supervision of PMCs in 2018. One decision imposing a fine of CZK 250,000 became final and conclusive.

4.4 SUPERVISION OF INVESTMENT FIRMS

Supervision of investment firms comprises supervision of non-bank investment firms and branches of foreign non-bank investment firms based in EU countries. The main aim of the supervision is to safeguard and maintain the financial stability of the sector and to protect clients using investment services provided by entities active in the capital market.

4.4.1 Licensing, approval and authorisation activities

The CNB registered 37 entities holding an investment firm licence at the end of 2018. One new licence was granted to Prague Wealth Management s.r.o. during the year. The CNB received nine notifications from foreign investment firms of the provision of investment services through a branch in the Czech Republic (one bank and eight non-banks). One branch of a non-bank investment firm provided notification of the termination of its activities.

Table A.8 – Numbers of investment firms and accredited entities

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Investment firms	33	4	0	37
of which: banks	13	3	0	16
non-banks	20	1	0	21
Branches of investment firms	35	9	2	42
of which: banks	15	1	1	15
non-banks	20	8	1	27
Accredited entities	0	9	0	9

A total of 15 administrative proceedings conducted with investment firms were closed in 2018, ten of which concerned investment firm licences or extensions of licences. Six applications were approved and four proceedings were discontinued. Another five proceedings were conducted in connection with consent to the acquisition of qualifying holdings in investment firms (consent granted in one case, four proceedings discontinued). With effect from 3 January 2018, the CNB started to issue authorisations to act as an accredited entity authorised to organise professional examinations under the Capital Market Undertakings Act.

Table A.9 – Numbers of administrative proceedings conducted with investment firms and accredited entities

	Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
Investment firms	27	16	11	15	12
Accredited entities	13	0	13	12	1

4.4.2 Off-site surveillance

The main activities of off-site surveillance of non-bank investment firms in 2018 involved checking compliance with the prudential rules and regulatory limits and assessing the financial condition of individual regulated entities on an ongoing basis. The CNB's supervisory capacity was allocated on the basis of a risk-oriented approach, with greater attention being focused on institutions with riskier profiles.

Quarterly statements on the financial results and capitalisation of individual entities, submitted on both a solo and consolidated basis, were the primary source of information for off-site surveillance in the prudential area. Additional information was obtained from monthly statements on the structure of client assets. Besides these main information sources, the CNB analysed information contained in annual reports and auditors' reports on the adequacy of measures taken to protect client assets, information about internal capital systems and, submitted for the first time in 2018, information on liquidity and financing adequacy assessment systems.

Based on these information sources, supervisors first produced overviews of compliance with regulatory limits and early warning information, the assessment of which helps them identify early risk areas and potential negative trends in the financial and prudential indicators of non-bank investment firms. More detailed analyses of the overall financial results and capitalisation of the individual entities under review and their consolidation units were prepared in the next step.

Following the implementation of the Supervisory Review and Evaluation Process (SREP) in the non-bank investment firms sector, a comprehensive assessment of the risk profiles of individual entities was prepared in 2018. Risk profiles are determined on the basis of monitoring and regular evaluation of quantitative and qualitative criteria in key areas such as business model stability, internal governance system quality, risk management system quality, sufficient capital coverage of the main types of risk, and liquidity and financing adequacy. Another component of the SREP was evaluation of internal capital systems.

In 2018, supervision in the non-bank investment firms sector was also focused on AML/CFT. The CNB evaluated AML/CFT internal policy and risk assessment systems and their compliance with the legislation. A comprehensive assessment of the riskiness of regulated entities was also conducted in this area.

MiFID II ushered in major changes in 2018, especially in the consumer protection area. Its implementation into Czech law necessitated extensive amendments to the Capital Market Undertakings Act and other laws. Supervision of non-bank investment firms was therefore focused on checking compliance with the requirements introduced by the new legislation. Thematic surveys on the proper configuration of the rules for creating and marketing investment instruments (product governance) and transparency when executing transactions outside trading venues were conducted to check whether supervised entities had adjusted to the new legislation. Supervised entities were provided with methodological guidance based on the ESMA's explanatory documents in the event of ambiguity in the interpretation of the new legal provisions.

At a time of sustained low interest rates, off-site supervisors registered increased interest in investment in corporate bonds offering higher returns but with higher risk, which investors are often unaware of. In response to this issue, the CNB published ten golden rules for retail investors in corporate bonds on its website, in which it detailed the risks of investing in corporate bonds and drew attention to the fact that information that the CNB has approved a bond issue means only that it has examined whether the prospectus for that bond issue is compliant with all the statutory formalities.

4.4.3 On-site examinations

The on-site examinations conducted in 2018 focused mainly on new technology applied to investment service provision and investment. Given the big increase in business activity in recent times, this poses potential risks to the sound operation of the domestic capital market.

Two on-site examinations were commenced in non-bank investment firms in 2018, focusing on the offering and sale of non-equity investment instruments posing an increased risk to investors (primarily certain types of bonds and certificates) and on advanced trading technology. Shortcomings consisted mainly in inappropriate or insufficient determination of clients' expertise and experience and their ability to understand the risks arising from the products being offered.

An examination was also conducted in a branch of a foreign investment firm providing services in the Czech Republic.

However, the examinations also uncovered shortcomings in areas of established practice, such as shortcomings relating to the use of intermediaries to gain and communicate with clients and the use of third parties to carry on important activities on behalf of the supervised entities without those parties being properly controlled by the supervised entities. In addition, many shortcomings arose as a result of malfunctioning governance systems, in particular underestimation of the compliance and internal audit functions. The most common shortcomings included inconsistencies between internal rules and reality or between internal rules and statutory requirements, and non-traceability of processes.

After the examinations had been completed, the CNB called on the entities examined to take remedial measures, the implementation of which is being continuously monitored. Based on the inspection results, the CNB proposed to open administrative proceedings in two cases.

4.4.4 Assessment of information from submissions made by members of the public

Submissions from the public regarding non-bank providers of investment services are an important source of information, especially as regards foreign providers, as, due to a limited reporting duty, the scope of information available to the CNB about their activities is smaller than that for domestic entities. In 2018, the CNB received a total of 77 submissions from the public concerning the activities of non-bank investment firms or similar foreign entities providing services to Czech clients. A total of 53 submissions (i.e. almost 70% of the total) concerned foreign entities, 35 of which were registered in Cyprus. The CNB also received five submissions regarding the activities of Polish entities and five submissions regarding the activities of German entities.

The most common submissions from the public concerned the quality of information provided or the provision of insufficient information on the properties of investment instruments and investment-related risks. The frequently recurring topics in the case of foreign entities included the pursuit of activities exceeding the scope of notification, especially the provision of investment advice. The queries also related to clients' problems with withdrawing funds from investment accounts. In the case of domestic investment firms, a large number of submissions concerned investment via investment certificates and similar structured investment instruments.

It is clear from the number of submissions received that foreign investment service providers posed the most serious problem in 2018. The manner in which investment services are provided can be regarded as particularly problematic. There are many cases of simultaneous provision of services through a branch or a tied agent and cross-border provision of services solely under notification where it is not clearly defined and differentiated for clients which activities are being provided by the foreign investment firm on a cross-border basis and which by the branch. This is reflected in ambiguity in the identification of the authorities competent to exercise supervision. Moreover, foreign investment firms provide investment services mainly for speculative and hence highly risky products, such as contracts for difference (CFDs), which are not suitable instruments for most retail clients.

Given the above, the CNB continued to communicate intensively and work closely with the competent supervisory authorities in the home countries of the foreign entities concerned and informed them about violations of the law, for example. In situations where the CNB does not have supervisory competence (such as in the case of cross-border provision of investment services) and there were grounds to believe a submission was justified, it referred the submission to the home supervisory authority. In addition to cooperation with supervisors, foreign investment firms were in some cases directly notified of shortcomings identified on the basis of submissions from the public.

The number of submissions received fell significantly compared with 2017 (from 77 in 2018 to 122 in 2017, a year-on-year decrease of more than one-third). This can be explained as being a consequence of intensive cooperation with foreign supervisors, which resulted in the adoption of remedial measures by foreign investment service providers themselves. The product intervention powers introduced by the ESM in August 2018, which concerned the prohibition to offer and sell binary options and the restriction on offering and sale of contracts for differences to retail clients, also began to be felt in the second half of the year. In this regard, the CNB published a notice on its website stating what restrictions on the sale and offering of CFDs to retail investors had been imposed under the product intervention powers and drawing potential investors' attention to the CNB's limited supervisory powers over foreign investment firms.

4.4.5 Enforcement

Two administrative enforcement proceedings were opened in the area of supervision of investment firms in 2018. Two decisions took effect. A fine was imposed in one case and a fine and a remedial measure were imposed under the Act on the CNB in the other. The fines imposed on the investment firms by the CNB totalled CZK 3,000,000 (CZK 1,500,000 in each proceeding).

4.5 SUPERVISION OF MANAGEMENT COMPANIES AND INVESTMENT FUNDS

Supervision of management companies and investment funds is concentrated mainly on funds with a potentially significant systemic impact, i.e. primarily collective investment funds managing funds from the public. Inspection work is focused on compliance with the rules of conduct of business for fund management and the configuration of governance systems.

4.5.1 Licensing, approval and authorisation activities

The CNB registered 30 management companies, one branch of a foreign investment company, one primary administrator, 138 investment funds with legal personality (of which 29 autonomous investment funds) and 242 mutual funds at the end of 2018.

Two new management companies (Proton investiční společnost, a.s., and CODYA investiční společnost, a.s.) obtained licences in 2018. Licences were granted to six autonomous investment funds (Good Value Investments investiční fond s proměnným základním kapitálem, a.s., IFIS investiční fond, a.s., Hunter, investiční fond s proměnným základním kapitálem, a.s., LOAN MANAGEMENT investiční fond, a.s., WOOD & Company, investiční fond s proměnným základním kapitálem, a.s., and SBS FUNDS SICAV a.s.).[30] Pioneer investiční společnost, a.s. wound up as of 1 January 2018 due to its merger with Amundi Czech Republic, investiční společnost, a.s. One autonomous investment fund closed down at its own request and one autonomous investment fund wound up due to its merger with another investment fund. RSJ Custody s.r.o. was entered in the list of investment fund depositaries, becoming the first non-bank depositary.

Table A.10 – Numbers of entities in the management companies and investment funds sector

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Management companies	29	2	1	30
Main administrators	1	0	0	1
Branches of foreign management companies	1	0	0	1
Management funds with legal personality	123	25	10	138
of which: autonomous funds	26	5	2	29
Mutual funds	227	24	9	242
of which: standard funds	59	3	0	62
Depositaries	4	1	0	5

The CNB conducted 85 administrative proceedings and made 65 decisions in the management companies and investment funds sector in 2018.

Table A.11 – Numbers of administrative proceedings in the management companies and investment funds sector

Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
85	23	62	65	20

A total of 65 administrative proceedings were completed in 2018, of which three concerned management company licences (two applications approved and one proceeding discontinued) and six concerned autonomous investment fund licences (all applications approved). The CNB conducted two proceedings regarding a change in a management company licence (both applications approved). It revoked the licence of one autonomous investment fund at the fund's own request. It also conducted one proceeding pertaining to the entry of an investment fund depositary in the list (application approved).

A total of 24 proceedings concerned prior consents to the discharge of office of director of a management company or an autonomous investment fund (all applications approved). Nine proceedings regarded consent to the acquisition of a qualifying holding in a management company (seven consents granted and two proceedings discontinued). Other completed proceedings pertained to the entry of a standard fund in the list of mutual funds (two proceedings), authorisation to merge mutual funds (one proceeding), authorisation to convert a special fund into a standard fund (two proceedings), consent to a change in the statute of a standard fund (nine consents), authorisation for the purposes of identification of a mutual fund (one proceeding) and determination of comparability of a foreign investment fund with a special fund (four proceedings).

30 LOAN MANAGEMENT investiční fond, a.s. failed to switch to the autonomous regime by the end of 2018 and was thus registered as a non-autonomous investment fund as at 31 December 2018.

4.5.2 Off-site surveillance

In its off-site surveillance of investment fund managers and their administrators, the CNB supervises above all their capital quality, the configuration of governance systems and other prerequisites for doing business. The CNB monitors the situation in the investment funds managed or administered by them mainly in terms of compliance with the conduct of business rules in portfolio management, i.e. compliance with investment funds' statutes, statutory limits, proper valuation of assets and the determination of the current value of capital. The CNB regards investor relations, and especially whether the information an investor is to obtain is complete, accurate and up-to-date, as a very important area. CNB supervision is also concentrated on relations with depositaries and distributors, which are a significant component of the fund infrastructure. The depositary function is an essential security element in the investment fund area. The quality of distribution of fund investment is crucial to the correct choice of investment matching the investor's experience and risk appetite and to the course of the investment itself. Depositaries are also very useful as regards compliance with the duties arising from the AML/CFT legislation.

No substantial changes in regulation occurred in the fund investment sector in 2018. The most important requirement valid as from 1 January 2018 is the duty of funds for qualified investors to prepare key information documents (KIDs) under the PRIIPs Regulation.[31] PRIIP KIDs must always be available if a product is offered to non-institutional investors.

The CNB continued to work in active cooperation with the Czech Capital Market Association in 2018. This cooperation focused mainly on practical issues related to the valuation of financial instruments according to international accounting standards in connection with the requirement laid down in Article 4 of Decree No. 501/2002 Coll.[32] The application of international accounting standards to investment funds' financial statements was also the main topic of cooperation with the Chamber of Auditors of the Czech Republic.

4.5.3 On-site examinations

The CNB commenced four on-site examinations in the fund investment area. Most of the examinations detected shortcomings in the asset acquisition and valuation process. The more serious objections pertained mainly to the acquisition of property and corporate bonds. Shortcomings were also found in analyses underlying investment decisions, traceability of internal processes and internal rules.

The examinations also revealed shortcomings in control of the use of third parties to carry on important activities on behalf of the supervised entities (delegation of activities) and management of conflicts of interest. In addition, many shortcomings had arisen as a result of a malfunctioning governance system, in particular underestimation of the compliance function and internal auditing. This was linked with insufficient traceability of processes. The examinations revealed errors in asset valuation and in the activities of the expert committee of a real estate fund.

After the examinations were completed, the CNB called on the entities examined to take remedial measures, the implementation of which is being continuously monitored. In one case, the examination resulted in a proposal to open an administrative proceeding due to shortcomings in the AML/CFT area.

31 Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products.

32 Decree No. 501/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units that are banks and other financial institutions.

4.5.4 Assessment of information from submissions made by members of the public

In 2018, the CNB received 21 submissions from the public drawing attention to the activities of management companies and investment funds or persons registered in the list referred to in Article 15 of the AMCIF.[33] Most of the submissions pertained to the activities of Czech fund investment entities subject to CNB supervision. The submissions concerned the conduct of business area, specifically the conditions for redeeming shares in investment funds in the context of late redemptions, late settlement of redemptions or changes in the value of the share. Most of these submissions were characterised by the investor having insufficient knowledge of the conditions stipulated in the fund statute. A further one-quarter of the submissions received from the public were queries about the activities of entities entered in the CNB's list referred to in Article 15 of the AMCIF. These entities are not subject to CNB supervision and are not authorised to offer investment to the public. The absence of supervision of entities entered in the list referred to in Article 15 of the AMCIF may mean that such investment is associated with higher risk and is only suitable for very experienced investors. The rest of the submissions were queries about foreign funds offered in the Czech Republic, specifically the conditions for redemption of the investment, the fund's performance and a sudden change in the net value of assets.

4.5.5 Enforcement

The CNB opened 11 administrative enforcement proceedings in the area of supervision of management companies and investment funds in 2018. Nine decisions became final and conclusive. In five cases only a fine was imposed, in two cases a fine was imposed and the company was deleted from the register of persons conducting asset administration comparable to asset management, and in two cases a decision on deletion from the register of investment funds with legal personality was issued. The fines imposed in the area of management companies and investment funds totalled CZK 5,300,000.

4.6 SUPERVISION OF BUREAUX DE CHANGE

Supervision of bureaux de change mainly took the form of on-site examinations and local investigations, but also involved off-site surveillance. Submissions received from the public were again an important source of information about potential shortcomings in the conduct of bureau-de-change activity in 2018.

4.6.1 Licensing, approval and authorisation activities

The CNB registered a total of 1,014 bureaux de change as of 31 December 2017. In 2018, 41 bureaux de change were granted licences, while 56 terminated their activity. The CNB registered 999 bureaux de change as of 31 December 2018.

Table A.12 – Numbers of bureaux de change

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Bureaux de change	1,014	41	56	999

A total of 51 administrative proceedings to grant licences and 38 administrative proceedings to revoke licences were opened in the bureau-de-change sector at the request of the bureaux de change concerned in 2018.

33 Act No. 240/2013 Coll., on Management Companies and Investment Funds, as amended.

4.6.2 Off-site surveillance

Off-site surveillance in the bureau-de-change sector focused mainly on monitoring compliance with the reporting duty under which bureaux de change report to the CNB on volumes of foreign currencies purchased and sold. On the basis of the data acquired, CNB off-site supervisors found that some entities were reporting non-zero volumes of foreign currency trading even though they had no bureau de change premises registered in the lists of regulated and registered financial market entities. Based on this finding, these entities were notified of their duty to inform the CNB about the location of their bureau-de-change premises and called upon to remedy the shortcomings. The information obtained in the course of off-site surveillance also served as a basis for planning examinations.

4.6.3 On-site examinations

The focus of the on-site examinations conducted in 2018 reflected findings from supervisory activities, primarily information obtained from the numerous submissions made by members of the public. The examinations focused on verifying compliance with statutory duties in relation to clients and the manner and form of information provided to clients, in particular the prohibition to publish information about more favourable exchange rates in a manner mistakable for the exchange rate list. The bureau-de-change sector was therefore again subject to on-site examinations in 2018 in greater intensity than the overall importance of this financial market sector would imply.

A total of 29 examinations were completed in 2018 (including those started in 2017). Another three examinations were started. The CNB conducted a total of 273 local investigations in individual bureaux de change as part of the supervision of bureaux de change.[34]

The examinations in 2018 focused mainly on locations with an increased risk factor in terms of conduct of business and compliance with statutory duties, i.e. mainly bureaux de change in parts of Prague frequently visited by tourists.

The conclusions of the examinations were in line with previous examination findings regarding the practices of bureaux de change, as shortcomings concerning exchange rate lists were recorded again. These included failure to give all information in the statutory shape and form, publication of information about more favourable exchange rates in a manner mistakable for the exchange rate list, and insufficient accuracy in the provision of information to clients before bureau-de-change transactions in relation to the content and form required by law.

The examinations conducted in bureaux de change in 2018 also focused on compliance with duties relating to AML/CFT measures. Minor shortcomings were identified in this area, typically in client identification and vetting procedures and in internal policy systems. Shortcomings were also identified with regard to compliance with the duty to hold a certificate of completion of a course on the identification of suspected counterfeit or altered banknotes and coins pursuant to the Act on the Circulation of Banknotes and Coins.[35]

Further to the examination findings, administrative proceedings to impose a fine were opened where major shortcomings were identified.

34 The process of conducting on-site examinations in bureaux de change is governed by domestic law, especially Act No. 255/2012 Coll., on Inspection, and Act No. 277/2013 Coll., on Bureau-de-Change Activities. Local investigations usually take the form of test exchanges carried out by CNB supervisory staff at bureaux de change (mystery shopping) either before the start of an on-site examination or as part of an examination already under way. The results of local investigations can be used in on-site examinations pursuant to Act No. 255/2012 Coll., on Inspection, as a basis for inspection findings (and for any follow-up administrative proceedings).

35 Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins and on the amendment of Act No. 6/1993 Coll., on the Czech National Bank, as amended, as amended.

4.6.4 Assessment of information from submissions made by members of the public

In 2018, the CNB received 338 submissions from the public regarding bureau-de-change activities, an increase compared with 2017. A large majority of the complaints pertained to the manner of providing information on preferential exchange conditions, with clients mistaking these preferential conditions for exchange rates presented on the exchange rate list. The rise in the number of this type of complaint is due mainly to an increase in the number of bureaux de change applying a marked difference between their standard and preferential (VIP) exchange rates.

Consumers also pointed out disadvantageous exchange rates or commissions in their complaints. In these cases, clients had expected the bureau-de-change to offer roughly the same exchange rate as that declared by the CNB. Complaints also frequently concerned consumers' requests to withdraw from exchange contracts in the case of transactions at disadvantageous rates. As regards the possibility to withdraw from exchange contracts and commissions for exchange transactions, the CNB worked in active cooperation with the Ministry of Finance in 2018 on a draft amendment to the Act on Bureau-de-Change Activity[36] newly governing these two areas. The level of exchange rates is not regulated, so the CNB has no power to intervene in this regard.

To eliminate the shortcomings indicated by off-site surveillance in the bureau de change sector, especially in connection with the provision of information on exchange rates to clients, the CNB intensified its examination activity focused on the provision of information about exchange conditions.

4.6.5 Enforcement

A total of 22 administrative enforcement proceedings were opened in 2018 for violation of the Act on Bureau-de-Change Activity. The CNB issued 26 final and conclusive decisions. Fines were imposed in 19 cases, one fine was imposed under the AML Act,[37] the bureau de change licence was withdrawn in one case, the bureau de change licence was withdrawn and a fine was imposed in three cases, and two administrative proceedings were discontinued. Fines totalling CZK 2,600,000 were imposed in this area.

4.7 SUPERVISION OF PAYMENT SERVICE PROVIDERS AND ELECTRONIC MONEY ISSUERS

Supervision of payment service providers and electronic money issuers focuses on the activities of payment institutions, foreign payment institutions operating in the Czech Republic through a branch, small-scale payment service providers, electronic money institutions, foreign electronic money institutions operating in the Czech Republic through a branch, small-scale electronic money issuers and, from 2018, also on the activities of payment account information administrators and postal licence holders whose postal licence explicitly includes the service of transferring money via a postal order.

4.7.1 Licensing, approval and authorisation activities

Supervision of payment service providers and electronic money issuers includes licensing, approval and authorisation activities and supervision of payment institutions, foreign payment institutions operating in the Czech Republic through a branch, small-scale payment service providers, electronic money institutions, foreign electronic money institutions operating in the Czech Republic through a branch, and small-scale electronic money issuers other than investment firms.

36 With effect from 1 April 2019, the amendment to the Act on Bureau-de-Change Activity gives consumers the right to withdraw from an exchange and makes other changes to the regulations consisting, among other things, in the prohibition of charging commissions for bureau-de-change transactions (with the exception of the exchange of coins, cheques and non-cash money). Before the amendment took effect, the possibility to charge commissions for bureau-de-change transactions was not regulated, so the CNB had no powers in this regard. See section 2 *Regulations in the Czech Republic in 2018* for more details on the amendment.

37 Act No. 253/2008 Coll., on Certain Measures Against Money Laundering and Terrorist Financing, as amended.

A new Payment System Act entered into effect on 13 January 2018. It introduced numerous new duties for existing holders of authorisation to provide payment services and provided for the establishment of new types of entities. Entities which were originally subject to simple registration (i.e. small-scale payment service providers and small-scale electronic money issuers) are now authorised in licensing proceedings, similarly to payment institutions and electronic money institutions. This is a substantial qualitative shift leading to a quantitative increase in activity. The new payment services are indirect submission of a payment order and provision of information on a payment account. In addition to payment institutions, a new type of entity – a payment account information administrator – may now provide information on a payment account.

At the start of 2018, the CNB registered 24 payment institutions. In 2018, two new entities (W.A.G. Issuing Services, a.s., and SPENDEE s.r.o.) were granted licences for the pursuit of business of a payment institution in licensing proceedings. SPENDEE s.r.o. is the first entity to receive authorisation to provide the service of provision of information on a payment account.

Table A.13 – Numbers of payment institutions and electronic money institutions

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Payment institutions	24	2	1	25
Branches of payment institutions	10	5	2	13
Electronic money institutions	2	0	0	2
Branches of electronic money institutions	1	1	0	2

Three administrative proceedings were completed in the payment system and electronic money area in 2018. All of them concerned licences for the pursuit of business of a payment institution (two applications were approved and one proceeding was discontinued at the applicant’s request).

Table A.14 – Numbers of administrative proceedings in the sector of payment institutions and electronic money institutions

	Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
Payment institutions	12	4	8	3	9
Electronic money institutions	2	0	2	0	2

4.7.2 Off-site surveillance

In 2018, supervisory capacity was focused on evaluating compliance with the new statutory requirements on the pursuit of business of a payment service provider arising from the new Payment System Act,[38] which took effect on 13 January 2018 and transposes the PSD 2 Directive.[39] In accordance with the transitional provisions of the Act, all payment service providers and electronic money issuers holding a licence to provide payment services or issue electronic money as of the record date for compliance with the new statutory conditions were obliged to prove to the CNB within the time limit stipulated in the Act that they met the conditions for the granting of the relevant licence under the new

38 Act No. 370/2017 Coll., on the Payment System, as amended.

39 Directive 2015/2366 (EU) of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.

Payment System Act. In the transition period, the CNB evaluated compliance with the new requirements, especially the requirement to introduce a governance system, by 13 July 2018 in the case of payment institutions and electronic money issuers (27 entities) and by 13 January 2019 in the case of small-scale payment service providers and small-scale electronic money issuers (194 entities).

Payment institutions and electronic money institutions had to adapt their governance systems to the new requirements, in particular their operational and security risk management systems, their complaints systems (including incident reporting), their business resumption and continuity procedures and their procedures for submitting, monitoring and recording sensitive payment data (including classification of and access to sensitive data). Payment institutions and electronic money institutions also had to demonstrate that part of their payment services business was pursued in the Czech Republic. Turning to small-scale payment service providers and small-scale electronic money issuers, the CNB assessed the introduction of operational and security risk management systems and complaints systems (including incident reporting), the integrity of persons that have qualifying holdings in providers/issuers, and compliance with the limit on the value of payment transactions between entities belonging to a single group (concern) over the preceding 12 months.

The most frequent shortcomings identified in the above areas were deficiencies in operational and security risk management systems and related business resumption and continuity procedures.

Another important element of supervisory work was the assessment of business plans and the functionality of governance systems (such as risk management systems, procedures for handling security incidents and complaints, sensitive payment data record-keeping and business continuity procedures) in respect of entities applying for authorisation to operate as payment service providers or electronic money issuers, including entities applying for authorisation to administer payment account information.

In addition, supervision of payment service providers and electronic money issuers was focused on monitoring compliance with the rules for protecting clients' funds and with the prudential rules, and in particular on capital adequacy, i.e. the maintenance of eligible own capital above the capital requirements stipulated by law. However, off-site surveillance was also targeted at compliance with the rules of professional care and conduct towards clients as laid down in the part of the Payment System Act governing private law relationships. The main shortcomings detected in the course of off-site surveillance related to the calculation of payment institutions' eligible capital, breaches of the statutory cap on the monthly average amount of payment transactions for small-scale payment service providers, and discrepancies in data on the value and investment structure of funds entrusted by users to payment service providers in order for the latter to execute payment transactions.

4.7.3 On-site examinations

In view of the above-mentioned legislative change and the related process of assessing compliance with the new statutory requirements, the examinations in this financial market segment in 2018 were limited to the completion of the examinations opened in 2017 (two examinations of small-scale payment service providers and two examinations of payment institutions). All the examinations conducted in 2018 also focused on compliance with the conditions set forth in the Consumer Protection Act[40] and the Act on the Circulation of Banknotes and Coins. Three of them also verified compliance with the conditions laid down in the AML Act.

40 Act No. 634/1992 Coll., the Consumer Protection Act, as amended.

The examinations mainly revealed shortcomings in the area of compliance with pre-contract information duties and information duties vis-à-vis the CNB pursuant to the Payment System Act, as well as shortcomings in the process of client identification and vetting pursuant to the AML Act.

Further to the findings, the supervised entities took their own remedial measures. In more serious cases and in cases of systemic shortcomings, proceedings to impose a fine or to withdraw authorisation to provide payment services were opened against the entities concerned.

4.7.4 Assessment of information from submissions made by members of the public

A total of 66 submissions made by members of the public were received in the payment service providers and electronic money issuers sector in 2018. Payment service users mainly pointed out cases where payment service providers had withheld money intended for the execution of payment transactions, non-compliance with statutory time limits for the execution of payment transactions, non-compliance with duties regarding protection of funds entrusted to providers by users, and the handling of complaints by providers. The number of submissions from the public rose markedly in this sector compared with the previous year (by more than 50%). The findings ensuing from submissions made by members of the public were reflected in decisions on the inclusion of specific entities in the examination plan for the subsequent period.

4.7.5 Enforcement

The CNB opened 69 administrative enforcement proceedings in the payment system area in 2018. It issued 50 final and conclusive decisions. Fines were imposed in four cases, a small-scale payment service provider licence was withdrawn (with fines imposed at the same time) in four cases, a small-scale payment service provider licence was withdrawn in 40 cases, and a small-scale electronic money issuer licence was withdrawn and fines were imposed in two cases. The fines imposed in 2018 totalled CZK 1,800,000.

4.8 SUPERVISION OF CONSUMER CREDIT PROVIDERS

2018 saw the end of the transition period enabling non-bank credit providers to apply for a proper licence and fulfil the requirements of the Consumer Credit Act,[41] thus allowing them to continue their activity.

4.8.1 Licensing, approval and authorisation activities

In the first half of the year, the CNB completed the licensing of non-bank consumer credit providers in the transition period that ran from 1 December 2016 to 31 May 2018. Of the 108 entities that had previously been carrying on business under a trade licence, 84 applicants were granted non-bank consumer credit provider licences. A total of 24 applicants were refused due to failure to comply with the licensing conditions or withdrawal of the application. By the end of 2018, the CNB had also granted three new non-bank provider licences to entities which previously had not pursued this activity.

41 Act No. 257/2016 Coll., on Consumer Credit, as amended.

Table A.15 – Numbers of entities in the consumer credit sector

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Non-bank consumer credit providers	5	82	0	87
Independent intermediaries	254	109	80	283
Accredited entities	19	4	4	19

In 2018, a total of 95 proceedings to grant non-bank consumer credit provider licences were completed in the transition period (granted in 79 cases, refused in 16 cases), as were three proceedings outside the transition period (granted in all cases). Additionally, 86 proceedings to grant independent intermediary licences were completed in the transition period (granted in 78 cases, refused in eight cases), as were 56 proceedings outside the transition period (granted in 38 cases, refused in 18 cases). Four accreditations to organise professional examinations were granted.

Table A.16 – Numbers of administrative proceedings in the consumer credit sector

	Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
Non-bank consumer credit providers	105	97	8	98	7
of which: applications in the transition period	95	95	0	95	0
new applications	10	2	8	3	7
Independent intermediaries	157	114	43	142	15
of which: applications in the transition period	93	93	0	86	7
new applications	64	21	43	56	8
Accredited entities	11	1	10	9	2

4.8.2 Off-site surveillance

In the area of off-site surveillance, the CNB conducted a broad-based survey aimed at verifying whether all non-bank providers who had received a licence had published all the information required by law on their websites or using other permanent data media. The survey followed up on a similar survey of bank providers conducted in the previous calendar year. The survey focused on 20 basic pieces of information which have to be constantly accessible to consumers, including information about the options for repaying consumer credit, the conditions of early repayment, the consequences of a breach of obligations, the process of providing consumer credit, the form and conditions of collateral, the types of lending rates available, a representative example, the register where an entity's licence may be checked, the possibility of out-of-court settlement of disputes, the internal mechanism for dealing with complaints, and the supervisory authority. The most frequent shortcomings on the part of non-bank providers were failure to publish information about the register enabling verification of whether an entity provides consumer credit on the basis of a licence granted by the CNB, and failure to provide information about the process of providing consumer credit, for example by not publishing the list of documents necessary for assessing creditworthiness. Furthermore, the consumer's right to file a complaint was restricted in violation of the law or the complaint rules were not published at all. For several companies, the specifications and amounts of individual fees to which the provider is entitled if the consumer breaches the contract were missing. On the basis of the survey, the supervised entities were called upon to remedy the shortcomings found. All the shortcomings detected were remedied.

As part of off-site surveillance, information visits to supervised entities were commenced at the end of 2018 to check how companies were fulfilling the transaction projections set out in the business plans submitted in licensing proceedings and how they were applying the requirements of the Consumer Credit Act in practice, in particular those regarding verification of due debt repayment projections.

4.8.3 On-site examinations

On-site examinations were completed in 21 accredited entities in 2018. They focused on checking whether supervised entities were organising professional examinations in accordance with their accreditation and the Consumer Credit Act. The results show that the examinations of accredited entities were beneficial. The findings included shortcomings in oversight by the examination committee and in evaluation of the tests. Errors also included failure to publish test dates and shortcomings in the requisites of certificates issued. Further to the findings, the supervised entities took their own remedial measures. In more serious cases, proceedings to impose a fine were opened against the entities. Another outcome of the inspection work was that some entities decided not to continue the business of an accredited entity on the basis of the examination.

On-site examinations of non-bank consumer credit providers were commenced in the final quarter of 2018.

4.8.4 Assessment of information from submissions made by members of the public

In 2018, the CNB dealt with 146 submissions from the public regarding bank consumer credit providers. They mostly contained complaints about a bank's demand for early repayment of consumer credit in the event of disagreement with a unilateral change in the terms and conditions, complaints against the opening of a revolving account in contradiction of the consumer's requirements and complaints in which the consumer alleged unjustified debt enforcement. The submissions also pointed to high costs of early repayment of consumer credit for house purchase.

The CNB received a total of 153 submissions relating to non-bank consumer credit providers from the public in 2018. The submissions most frequently related to consumers' requests for debt discharge assistance, inappropriate debt enforcement conduct by providers, including the provision of incorrect or incomplete information in contractual documentation, and unjustified continuation of a record of unpaid debt in the Non-bank Register of Client Information. Other submissions concerned aggressive consumer credit offers and offers to provide consumer credit without a sufficient income check.

The CNB also dealt with 47 consumer notifications of unauthorised business in the area of consumer credit provision.

4.8.5 Enforcement

A total of 21 new administrative enforcement proceedings were opened in this area in 2018. In all, 17 decisions became final and conclusive. Fines were imposed in all cases. The fines imposed in 2018 totalled CZK 4,475,000.

4.9 SUPERVISION OF RETAIL DISTRIBUTORS

In 2018, the CNB supervised the activities of insurance product distributors (covering all categories of insurance intermediaries, including independent loss adjusters), investment distributors, which include investment intermediaries and their tied agents, and distributors in the area of consumer credit, especially independent consumer credit intermediaries and their tied agents.

The CNB supervised retail distributors by means of off-site surveillance and on-site examinations. Submissions received by the CNB from the public, in particular consumers, were also used as an important source of information.

Supervision in this sector focused on compliance with duties laid down in the legal rules – including directly applicable regulations – governing the activities of retail distributors in the individual areas of the financial market. Where distributors intermediated the conclusion of distance contracts for financial services, the supervisory work also included checking compliance with the related duties arising under the Civil Code.[42] Verifying compliance with the duties imposed on distributors by the Consumer Protection Act was an integral part of supervision. This mainly pertained to compliance with the prohibition of unfair business practices and the prohibition of discrimination against consumers, as well as compliance with the information duty regarding the options for out-of-court settlement of disputes. At the same time, the CNB supervised compliance with the duties placed on retail distributors by the AML/CFT legislation.

4.9.1 Testing financial market expertise

In the area of testing financial market expertise, the CNB on 1 June 2018 published a set of examination questions for testing expertise with regard to the Capital Market Undertakings Act. This represents a further step in the implementation of the approach to testing expertise whereby the CNB in cooperation with the Ministry of Finance provides a unified set of examination questions which are then used by accredited entities (entities authorised by the CNB to examine financial service providers or intermediaries). The first set of examination question, covering the Consumer Credit Act, was created in 2017. Additional questions concerning the Act on Insurance and Reinsurance Intermediation will be prepared in 2019.

The two-year transition period for persons directly involved in the provision or intermediation of consumer credit or responsible for the provision or intermediation of consumer credit (e.g. a member of the statutory body or management board, a proctor, or an employee of a provider or intermediary), during which these persons were required to pass a professional examination, ended on 30 November 2018. From the date of effect of the Act until the end of 2018, accredited entities examined more than 66,000 consumer credit distributors. The average pass rate was over 69%

In 2018, the CNB held professional examinations of insurance agents and insurance brokers to verify whether the applicants were competent to perform such activities at a medium and higher level of competence. In all, 244 candidates took these examinations during the year and 211 passed. The last examination organised by the CNB under the previous legal framework took place on 3 September 2018. Following the entry into effect of the Act on Insurance and Reinsurance Distribution on 1 December 2018, the organisation of professional examinations has been fully transferred to accredited entities.

The Act tasks the CNB in cooperation with the Ministry of Finance with providing a unified set of examination questions according to which accredited entities will organise professional examinations. The CNB took all the necessary steps to provide such a set of questions. It is expected to be published in 2019 Q3.

42 Act No. 89/2012 Coll., the Civil Code, as amended.

4.9.2 Off-site surveillance

As part of its off-site surveillance of the retail distribution sector, the CNB checked and evaluated whether the activities of the supervised distributors was in accordance with the relevant legal rules. Compliance with the duties imposed on the distributors supervised was checked using individual surveillance investigations (most of which were investigations of submissions from the public) and thematic investigations and on the basis of information obtained in the course of other supervisory work. The surveillance was focused on enhancing the quality of services provided by supervised distributors on the financial market and increasing consumer protection.

As regards insurance intermediaries, the CNB's off-site surveillance mainly involved verifying compliance with the duties to provide complete and undistorted information to clients, especially on the principles, functioning and costs of products offered. In this context, supervisors checked compliance with the duty to properly identify and record clients' requirements and needs prior to agreeing an insurance policy, including the giving of sufficient reasons for recommending a product. Increased attention was paid to cases of insurance renegotiation, i.e. situations where existing life insurance policies are replaced by new ones. With regard to insurance agents and brokers, compliance with the duty to submit annual statements of activities was checked.

In the area of investment intermediation, the CNB continued to verify compliance with the duties of investment intermediaries arising under the AML Act. They include the duty to prepare and submit to the CNB a system of internal policies to mitigate and effectively manage the risks of money laundering and terrorist financing, including an assessment of whether the said system contains shortcomings. Where shortcomings were identified, the supervised entities were called upon to eliminate them. When verifying compliance with the duties arising from the amendment to the Capital Market Undertakings Act and MiFID II and the directly applicable regulations, off-site surveillance was focused mainly on compliance with the rules of conduct towards clients.

The CNB's off-site surveillance work in relation to consumer credit intermediaries in 2018 entailed checking compliance with the duties arising under the Consumer Credit Act, in particular the information duties to consumers and reporting duties to the CNB, in order to ensure that consumers have up-to-date and complete information to the extent stipulated by the Act. Investigations were also conducted to verify suspicions of unauthorised consumer credit intermediation.

The CNB conducted thematic investigations in this sector to collect key information on the activities of selected distributors, including information in the AML/CFT area.

4.9.3 On-site examinations

A total of 17 examinations were performed and completed in retail distributors in 2018 (including those commenced in 2017). A further 19 examinations had been commenced but not completed by the last calendar day of 2018.

The most frequent shortcomings revealed in the examinations conducted in the area of investment service provision in 2018 pertained to informing clients about the existence and nature of inducements accepted, obtaining information about clients' expertise and experience and processing orders received from clients without undue delay. Other frequent shortcomings included failure to apply internal control elements and errors in the registration of contracts and orders maintained by investment intermediaries.

A major and very frequent shortcoming in the intermediation area was insufficient recording of the requirements and needs of clients and the reasons for the intermediary recommending an insurance product. Other shortcomings included failure to ensure that the persons carrying out intermediation activities met the condition of competence, insufficient compliance with the information duty to clients, failure to announce changes in the data entered in the CNB register and shortcomings in the governance of a distribution network.

In the area of consumer credit intermediation, the shortcomings related mainly to compliance with information duties to clients prior to credit intermediation and failure to introduce and apply internal control rules. The most frequent findings pertaining to compliance with duties under the AML Act were shortcomings in the identification and vetting of clients, especially verifying whether the client is a politically exposed person or a person against whom the Czech Republic is applying international sanctions. In addition, the entities examined often failed to inform consumers about entities providing out-of-court settlement of consumer disputes pursuant to the Consumer Protection Act.

After the examinations, retail distributors were usually called upon to take appropriate remedial measures. In more serious cases, proceedings to impose a fine and remedial measures were opened against these entities.

4.9.4 Assessment of information from submissions made by members of the public

In its supervision in the retail distribution area, the CNB also uses submissions made by members of the public as an important source of information on the activities of the supervised entities. In 2018, the CNB received 301 submissions regarding retail distribution. Two-thirds of the submissions concerned insurance intermediation, while the rest were divided equally between investment product intermediation and consumer credit intermediation.

As regards insurance intermediation, the largest number of submission continued to indicate shortcomings in the conclusion of investment life insurance. Their authors most often pointed out that an insurance intermediary had provided incomplete or misleading information or had recommended investment life insurance in conflict with their requirements and insurance needs. They very often drew attention to unjustified and disadvantageous insurance renegotiations. Other reasons for submissions included dissatisfaction with the scope of the insurance concluded, insufficient information on exclusions and the conclusion of an insurance policy without the client knowing. The authors of many submissions voiced disagreement with the fact that they had been offered insurance intermediation without having requested any such service.

Turning to investment intermediation, the submissions pointed out violations of duties relating to conduct towards clients, the provision of untrue or incomplete information on the characteristics of investment products by supervised distributors, and the conclusion of unsuitable and disadvantageous products for the client. In addition, attention was drawn to unauthorised offering or provision of investment services.

With regard to consumer credit intermediation, most of the submissions concerned violation of duties by independent consumer credit intermediaries or their tied agents. The most frequent topics of these submissions were the provision of untrue or incomplete information and the charging of unjustified fees for credit intermediation. Some of the submissions pointed to possible unauthorised consumer credit intermediation by entities which do not have the relevant authorisation from the CNB to perform this activity.

4.9.5 Enforcement

A total of 29 administrative enforcement proceedings were opened in the insurance intermediation area in 2018. A total of 29 decisions became final and conclusive. Fines were imposed in 14 cases, fines and remedial measures were imposed in four cases, only remedial measures were imposed in another four cases, entries in the register of insurance intermediaries were deleted in five cases, and two administrative proceedings were discontinued. The fines imposed in 2018 totalled CZK 2,250,000.

Nine new administrative enforcement proceedings were opened in the investment intermediation area in 2018. In all, 12 decisions became final and conclusive. Fines were imposed in three cases, fines and remedial measures were imposed in another three cases, the investment intermediary's registration was cancelled in two cases, a fine was imposed and the proceedings were partly discontinued in one case, and the proceedings were discontinued in three cases. Fines totalling CZK 1,895,000 were imposed in the investment intermediation area.

4.10 SUPERVISION OF HANDLERS OF DOMESTIC BANKNOTES AND COINS

No proceedings on authorisation for the activity of a handler of domestic banknotes and coins were conducted in 2018.

Table A.17 – Numbers of handlers of domestic banknotes and coins

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Handlers of domestic banknotes and coins	5	0	0	5

The CNB supervises compliance with the Act on the Circulation of Banknotes and Coins and the directly applicable EU legal rules to which this law relates. Credit institutions providing cash services and handlers of domestic banknotes and coins are obliged to provide the Czech National Bank with the information it needs and the explanations it requests when performing supervision. If there is a reason to suspect that domestic banknotes and coins have been handled unlawfully, the CNB is authorised to carry out an on-site examination. If the obligations arising from this Act have been breached or unlawful conduct is detected, the CNB may impose remedial measures or a fine.

Enforcement
Ten new administrative enforcement proceedings were opened pursuant to the Act on the Circulation of Banknotes and Coins in 2018. Nine decisions became final and conclusive, with fines being imposed in all cases. The fines totalled CZK 1,295,000.

4.11 SECURITIES ISSUES AND REGULATED MARKETS

A total of 106 companies whose securities had been admitted to trading on a European regulated market were registered at the start of 2018.[43] During 2018, shares of five issuers (funds for qualified investors in all cases) and bonds of 15 issuers were newly admitted to trading on a regulated market.

Securities of nine issuers were excluded from trading during 2018. Four cases involved bonds excluded owing to due or early redemption and five involved shares excluded at the decision of the issuer. A total of 117 issuers whose securities had been admitted to trading on a European regulated market were registered at the end of 2018.

43 Of these, securities of three issuers had only been admitted to a regulated market outside the Czech Republic.

Table A.18 – Numbers of issuers of listed securities and market infrastructure entities

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Issuers of listed shares admitted to trading on a European regulated market	106	20	9	117
Regulated market operators	3	0	1	2
Multilateral trading facility operators	3	0	0	3
Organised trading facility operators	0	1	0	1
Operators of settlement systems with settlement finality	2	0	0	2
Central depository	1	0	0	1
Benchmark administrators	0	1	0	1

The number of regulated market operators fell year on year, as this activity is no longer carried on by POWER EXCHANGE CENTRAL EUROPE, a.s. (PXE). The remaining operators are thus RM-SYSTÉM, česká burza cenných papírů, a.s. (RM-S) and Burza cenných papírů Praha, a.s. (BCPP, Prague Stock Exchange – PSE). The number of multilateral trading facility operators (BCPP – Free Market and START, RM-S – Volný trh and 42 Financial Services, a.s.) remained unchanged year on year, as did the number of operators of settlement systems with settlement finality (CNB – Short-term Bond System (SKD) and the Central Securities Depository Prague – CSDP (Centrální depozitář cenných papírů, a. s.)). In addition, the CSDP continues to operate as a central securities depository.

The CNB conducted 97 administrative proceedings in the area of securities issues, securities registers and regulated markets in 2018. Most of the 82 decisions (67) concerned the approval of documents relating to new securities issues. An additional 13 decisions were issued in the market infrastructure area. The following new authorisations were granted: CSDP for the activity of a central depository pursuant to CSDR,[44] 42 Financial Services, a.s., for the activity of an organised trading facility pursuant to MiFIR,[45] and Czech Financial Benchmark Facility s.r.o. for the activity of benchmark administrator pursuant to BMR.[46] Three decisions were issued in the area of pre-trade transparency waivers under MiFIR and four decisions were issued by the CNB in 2018 concerning the assessment of exemptions under EMIR.[47] As regards takeover bids and squeeze-outs, the CNB granted two prior consents to the squeeze-out of minority shareholders in the companies Pražské služby, a.s. (City of Prague) and Unipetrol, a.s. (PKN Orlen SA).

Table A.19 – Numbers of administrative proceedings in the area of securities issues and market infrastructure entities

Number of administrative proceedings conducted in 2018	Continuing from 2017	Opened in 2018	Closed in 2018	Continuing into 2019
97	2	95	82	15

44 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the EU and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

45 Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

46 Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

47 Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

In the course of its supervisory work, the CNB reviewed 74 sets of final conditions for offers of securities outside administrative proceedings in 2018. It made standard inspections of regularly published reports (inspections of annual and semi-annual reports of all issuers and detailed checks of the application of IFRS in annual accounts in eight selected issuers). Compliance with the duties of issuers of listed securities and related persons was supervised at the same time (notifications of shares in voting rights and directors' transactions). Shortcomings were communicated and remedy ensured.

In the area of regulated markets, off-site surveillance involved reviews of the PSE rules, mainly with regard to their adaptation to the new MiFID II/MiFIR rules (rules for block trades in connection with market transparency rules, rules for market-making, rules for the Free Market relating to dual listings, rules for admitting securities of collective investment undertakings and rules of the START market), and the CSDP rules (settlement rules). The PSE registered an additional business activity for the purposes of operating the START – Veřejná nabídka system, consisting in services related to investment instrument underwriting. Some minor issues were addressed in relation to the CSDP regarding the maintenance of the central securities register (especially in the context of re-licensing under CSDR) and the legal entity identifier.

Compliance with the duties of issuers of listed securities and related persons was also supervised (notifications of shares in voting rights and directors' transactions). Shortcomings were communicated and remedy ensured.

Enforcement
A further 11 administrative enforcement proceedings were opened against securities issuers in 2018. Eight decisions became final and conclusive. Fines were imposed in six cases and fines and remedial measures were imposed in two cases. Fines imposed in the securities issuance area totalled CZK 1,750,000 in 2018.

4.12 SUPERVISION-RELATED NOTIFICATION, REGISTRATION AND INFORMATION ACTIVITIES

4.12.1 Notifications (under the single licence)

Outbound notifications
As of 31 December 2018, four domestic banks had a branch in Slovakia and 11 domestic banks were providing services in host EU Member States without establishing a branch.

Three domestic insurance undertakings had branches in Slovakia and one had a branch in Poland. Twenty domestic insurance undertakings (including two branches of foreign insurance undertakings) were providing services without establishing a branch within the territory of host EU Member States at the end of 2018.

The investment firm 42 Financial Services, a.s., provided notification of expansion of investment services via a branch in Poland.

Czech payment institutions are expanding their activities in the EU using the freedom to provide services (i.e. without establishing a branch). W.A.G. Issuing Services, a.s., provided notification of its intention to operate in 24 states of the EU and the EEA, Citfin – Finanční trhy, a.s., in Hungary and Romania, and Benefit Management s.r.o. in Slovakia.

Outbound notifications under the freedom to provide services in the EEA (or changes thereto or termination thereof) were dealt with for 1,888 insurance intermediaries residing or having their registered office in the Czech Republic.

Inbound notifications

Table A.20 – Numbers of cross-border service provision notifications

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Credit institutions[i]	430	29	12	447
Electronic money institutions	132	46	6	172
Insurance undertakings[i]	873	102	15	960
UCITS funds	1,340	305	229	1,416
AIFs[ii] excluding EuVECAs[iii] and EuSEFs[iv]	128	63	29	162
EuVECAs	28	22	2	48
EuSEFs	0	1	0	1
UCITS management companies	48	4	7	45
Alternative investment fund managers	37	13	1	49
Investment service providers	1,873	138	44	1,967
Payment institutions	379	53	41	391
Foreign institutions for occupational retirement provision	1	0	0	1
Insurance intermediaries	6,245	442	179	6,508
Foreign intermediaries of consumer credit for house purchase	2	6	0	8

i) In the banking and insurance sectors, banks and insurance undertakings and their branches operating in other EU/EEA countries provide notification.
ii) AIFs: alternative investment funds (special funds and funds for qualified investors).
iii) EuVECAs: European venture capital funds.
iv) EuSEFs: European social entrepreneurship funds.

The CNB received 189 notifications of the approval of securities prospectuses (or amendments thereto) for the purposes of public offers in the Czech Republic or admission to trading on a regulated market from foreign supervisory authorities.

4.12.2 Registrations, representations of banks and financial institutions

The CNB also grants authorisation (usually in simplified proceedings) to other entities, especially in the area of retail distribution, or merely enters these entities in a list. The largest year-on-year changes in the number of these entities were marked declines in the number of investment intermediaries and tied agents on the capital market, which occurred as a result of a new duty to pay an administrative fee for extending the validity of an authorisation in this sector. Failure to pay this administrative fee also brought about a decrease in the number of tied agents under the Consumer Credit Act.

Table A.21 – Numbers of registered and listed entities

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Registered representations of foreign banks[i]	15	0	3	12
Investment intermediaries	7,046	0	6,831	215
Tied agents (capital market)	26,448	3,141	11,688	17,901
Small-scale payment service providers	166	5	14	157
Small-scale electronic money issuers	25	0	4	21
Entities authorised to distribute pension products:				
investment intermediaries	119	7	30	96
non-bank investment firms	1	0	0	1
bank investment firms	6	0	0	6
tied agents	10,554	2,808	3,378	9,984
tied agents of pension management companies	8	3	5	6
Insurance intermediaries and ILAs[ii]	174,877	4,729	990	178,616
Independent consumer credit intermediaries	254	109	80	283
Tied agents (consumer credit)	24,049	5,495	14,449	15,095
Intermediaries of specific-purpose consumer credit	1,861	100	1,019	942
Entities conducting asset administration comparable to asset management pursuant to Article 15 of the AMCIF	44	44	8	80

i) Registration of a representation of a foreign bank pursuant to 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 promote the services of its head office in the Czech Republic.
ii) The figure does not include foreign intermediaries listed in the register due to notifications of insurance intermediation from another EU/EEA Member State.

4.12.3 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 information requested. In 2018, the CNB conducted oral proceedings with liquidators, provided consultations and opinions on liquidation processes and provided information and documentation at the request of courts and law enforcement agencies.

Table A.22 – Numbers of financial market entities in liquidation

	As of 31 December 2017	Entries in 2018	Exits in 2018	As of 31 December 2018
Banks	4	0	2	2
Credit unions	5	0	1	4
Insurance and reinsurance undertakings	2	0	2	0
Management companies	3	0	0	3
Investment funds	9	0	0	9
Mutual funds	6	12	10	8
Pension management companies	0	0	0	0
Investment firms	1	0	0	1
Total	30	12	15	27

The number of financial market entities in liquidation monitored by the CNB was down by three year on year at the end of 2018. A total of 15 entities ceased to be subject to CNB supervision as a result of the completion of liquidation: two banks (Kreditní banka Plzeň, a.s. v likvidaci and ERB bank, a.s. v likvidaci, on which bankruptcy was declared), one credit union (1. Vzájemná družstevní záložna Církve československé husitské v likvidaci), two insurance undertakings (ING pojišťovna, a.s., v likvidaci and Cestovní pojišťovna ADRIA Way družstvo "v likvidaci") and ten mutual funds in liquidation. Twelve mutual funds went into liquidation in 2018.

4.12.4 Provision of information under Act No. 106/1999 Coll., on Freedom of Information

The CNB is an obliged entity under Act No. 106/1999 Coll., on Freedom of Information, as amended. It provides information pursuant to this Act by way of disclosure of obligatorily provided information on its website and also on the basis of individual applications lodged under this Act.

Statistics
In 2018, the CNB received a total of 71 applications under Act No. 106/1999 Coll. and issued six decisions refusing applications. Three appeals were filed against decisions to refuse to provide information.

The numbers of applications received in 2011–2018 show the public's continued high interest in information about the CNB's areas of responsibility.

Table A.23 – Numbers of applications under Act No. 106/1999 Coll.

	2011	2012	2013	2014	2015	2016	2017	2018
Number of applications received	19	26	60	59	53	51	79	71

Focus and content of applications
As in previous years, the applications pertained to a broad and diverse range of information which cannot be narrowed down to typical categories with regard to the numbers of applications given above. The applications and queries received from the public primarily concerned supervision. They were also often related to statistics, financial market legislation, bonds, the Czech currency, and circulation of banknotes and coins. Applicants were also interested in licensing and enforcement proceedings conducted by the CNB and specific supervisory investigations.

As regards conduct of business supervision, the nature of the matter is such that an application filed under Act No. 106/199 Coll. may also be perceived as a petition from the public for supervision. Although some applications are not directly a petition, they may relate to supervision, for example when an applicant uses an application under Act No. 106/1999 Coll. to ascertain how their own petition or complaint has been dealt with, or enquires about additional circumstances of specific supervisory actions.

Information provided on the basis of individual applications under Act No. 106/1999 Coll. is available in the relevant section of the CNB website.[48]

48 https://www.cnb.cz/cs/o_cnb/106/ (in Czech only).

4.12.5 Cross-border activities – applications for fit and proper assessments[49]

When performing its duties, the CNB works in cooperation with the central banks and financial market supervisory authorities of other countries and with international organisations engaged in financial market supervision. In 2018, the CNB dealt with 48 applications for assessments of the trustworthiness, competence and experience of persons working for financial services providers, submitted by 16 foreign authorities.

Table A.24 – Numbers of applications from foreign regulators

	2014	2015	2016	2017	2018
Number of applications received	23	29	35	46	48

4.12.6 Central Credit Register

The Central Credit Register (CCR) is an information system administered by the CNB since 2002. It is used mostly by banks and foreign bank branches operating in the Czech Republic to obtain information on the credit commitments of their current or potential clients in the banking sector and to check their payment discipline. The CCR has a special analytical module enabling users from banks and the CNB to define their own aggregate outputs for the banking sector, for the main groups of banks and, in the case of banks, also for their own bank. Great emphasis is put on the correctness of the data. This is aided by a set of tools that banks can use to make quick corrections. Clients can verify the correctness of the data kept on them by applying for an extract from the CCR.

Banks have included CCR outputs in their standard lending processes to a large extent. The number of database enquiries is steadily increasing. In 2018, the development of new output modules was completed and a series of training sessions was organised for users from the banks that are gradually switching to the new outputs.

The total number of registered debtors fell slightly year on year in 2018, owing to a higher number of deleted borrowers who have had no debts registered in the CCR for more than ten years.

Table A.25 – Main operational characteristics of the Central Credit Register

	31 December 2015	31 December 2016	31 December 2017	31 December 2018
Number of registered borrowers	628,436	630,549	633,018	632,726
of which: natural persons (entrepreneurs)	336,897	331,540	326,683	322,364
legal entities	291,539	299,009	306,335	310,362
Total volume of loans outstanding (CZK billions)	1,617	1,696	1,722	1,830
Number of CCR users	2,146	2,259	2,258	2,246
Ad hoc enquiries about credit commitments (thousands per year)	285	299	308	361
Number of enquiries about client credit commitments in monthly reports (thousands per year)	4,292	4,215	4,372	4,506
Number of extracts made for clients per year	423	536	569	488

49 Assessments of the trustworthiness, competence and experience of persons working for financial services providers.

4.12.7 Overview of offences under the Act on the CNB

In accordance with Article 45d of the Act on the CNB, the CNB compiles an overview of offences containing aggregate data on offences in its area of competence for the previous calendar year.[50]

Table A.26 – Overview of offences under the Act on the CNB

Breakdown according to Article 45d(2) of the Act on the CNB	
Number of petitions received	182
Number of proceedings opened	109
Number of cases deferred	73
Number of proceedings discontinued	1
Number of final and conclusive decisions	94
Total fines imposed	CZK 22,315,000
Number of decisions waiving the imposition of a penalty	0
Number of appeals submitted	8 [51]

4.13 THE CNB'S ACTIVITIES IN THE FINTECH INNOVATION AREA

The definition of financial innovation is inherently quite broad. In general, it involves innovative solutions in the provision of financial services based on modern technologies (FinTech).[52] FinTech companies thus include not only traditional financial service providers (such as banks and insurance undertakings), but also new companies (start-ups) offering innovative products (such as mobile applications) and services (such as credit crowdfunding[53]) on the financial market. If an entity carries on innovative activities on the financial market, the CNB as supervisory authority examines those activities solely from the perspective of whether they meet the criteria of regulated activities requiring authorisation or registration pursuant to the laws governing business in the financial market.

Pursuant to Act No. 6/1993 Coll., on the CNB, the CNB is the supervisory authority for entities operating on the financial market. The entities defined in the act are supervised because they undertake regulated activities (such as accepting deposits, concluding insurance policies and providing investment and payment services), regardless of the technologies which they use in so doing. If a FinTech company does not perform a regulated activity, it is not subject to supervision by the CNB. The CNB does not even keep a register of FinTech companies; it only registers entities performing particular regulated activities.

Given the increased FinTech activity on the financial market, the CNB is working intensively on this issue, among other things by strengthening its cooperation with the European Supervisory Authorities (ESAs) and communicating with stakeholder associations and market participants in the financial innovation area. In 2018, the CNB paid particular attention to cryptoassets, crowdfunding, automation (including automated investment advice and machine learning) and the use of big data, and to issues related to facilitating innovation by the CNB. In ESA working groups, the CNB was closely involved in the preparation of ESA documents stemming from the European Commission's FinTech action plan (for example documents on cryptoassets, the use of big data and outsourcing).

50 In 2018, in addition to these offences, the CNB conducted proceedings and issued decisions which pertained to original administrative offences under the previous legal framework and which are therefore not included in the overview of offences.

51 The first-instance decision was confirmed by the Bank Board (i.e. in the second instance) in four cases, while the decision was partly changed in another four cases.

52 FinTech encompasses a whole range of categories of technological innovation applied in the financial sector, including InsureTech (FinTech limited to the insurance market), RegTech (FinTech used by regulated financial market entities to ensure compliance with regulatory requirements) or SupTech (FinTech used by supervisory authorities for financial market supervision).

53 Credit crowdfunding is a form of crowdfunding involving financial remuneration. It is a lending-based model in which each contributor decides what amount they will lend to a borrower or for a specific project.

5. INTERNATIONAL COOPERATION IN 2018

In 2018, the CNB continued to be actively involved in the activities of European and international institutions engaged in financial market regulation and supervision. It drafted opinions on proposals for new rules and its representatives promoted its positions in the negotiations of the strategic bodies, expert committees and working groups of these institutions. Of particular importance was cooperation within the European Supervisory Authorities (ESAs), where the CNB was involved in the preparation of numerous technical standards and guidelines for directives and regulations. Ongoing cooperation with the national supervisory authorities of EU Member States within supervisory colleges for banking and insurance groups continued to grow in importance.

5.1 COOPERATION WITHIN THE EUROPEAN SUPERVISORY AUTHORITIES

European Banking Authority (EBA)

The supreme body of the EBA is the Board of Supervisors (the Board). The CNB Bank Board appoints a member of the Board on behalf of the CNB. In 2018, the CNB was actively involved through its representatives in the activities of all six standing committees and most expert working groups of the EBA.

The EBA continued to create the European Single Rulebook in 2018. The regulatory area saw ongoing preparation of level-three regulations in accordance with CRD IV/CRR, BRRD[54] and other EU legal acts, including the directives on deposit guarantee schemes (DGSD),[55] payment services in the internal market (PSD 2),[56] payment accounts (PAD)[57] and credit agreements for consumers relating to residential immovable property (MCD).[58]

In 2018, the EBA completed and submitted to the Commission a total of seven draft regulatory and implementing technical standards on the provision of information for the purpose of resolution plans prepared by financial institutions, on reporting by national supervisors, on the calculation of the capital requirement for underlying exposures of securitised assets in advanced IRB models, on the regular benchmarking of banks' internal models for determining capital requirements for credit and market risk, on the specification of the nature, severity and duration of an economic downturn for the purposes of calculating credit institutions' capital requirements using advanced IRB models, on cooperation and exchange of information between supervisory authorities in home and host Member States in the payment services area under PSD 2 and on the specification of conditions for the retention of net economic interest in relation to exposures to securitisations.

The CNB also actively participated in the preparation and subsequent translation of 11 guidelines and recommendations. These regulations mainly concerned disclosure by institutions under IFRS 9, management of interest rate risk in the investment book, a revision of the supervisory review and evaluation process (SREP), stress testing by financial institutions, provision of statistical data on payment fraud to supervisory authorities, management of non-performing and forborne exposures, the exemption of payment service providers from the obligation to implement the contingency mechanism in the event of non-compliance with the dedicated interface requirements,[59] the STS[60] criteria for securitisation subject to lower capital requirements, disclosure of non-performing and forborne exposures by credit institutions and the equivalence of confidentiality regimes of third country supervisory authorities.

54 Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms.

55 Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes.

56 Directive 2015/2366/EU of the European Parliament and of the Council on payment services in the internal market.

57 Directive 2014/92/EU of the European Parliament and of the Council on payment accounts.

58 Directive 2014/17/EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property.

59 Commission Delegated Regulation (EU) 2018/389 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.

60 Simple, transparent and standardised securitisation.

As part of the preparation of the Single Rulebook, CNB representatives contributed to the preparation of draft replies to a high number of enquiries from the public in a Q&A system. This system enables national supervisory authorities in the EU to clarify the application of CRD/CRR, BRRD, DGSD and PSD 2.

The CNB was also involved in the EBA's Brexit-related preparatory work, in particular the drafting of the EBA's public appeal to financial institutions to prepare for the risks arising from the potential withdrawal of the UK from the EU under a no-deal scenario ("hard Brexit") and for the need to provide information to their customers on the impacts of such a Brexit on continuity of services. In this connection, the CNB contributed to the preparation of memoranda of understanding between the supervisory authorities of the EU 27 and the UK for the eventuality of a no-deal Brexit.

In 2018, the EBA conducted a peer review of the implementation of the regulatory technical standards on passport notifications by credit institutions operating in the EU.[61] The CNB obtained the best possible score in all the classified questions.

European Securities and Markets Authority (ESMA)
The supreme body of ESMA is the Board of Supervisors (the Board). The CNB Bank Board appoints a member of the Board on behalf of the CNB. In 2018, the CNB was actively involved through its representatives in the activities of ESMA's standing committees and working groups. In that year, ESMA focused more on supervisory convergence, Brexit and the implementation of MiFID II and MiFIR.

In the area of investment service provision, the CNB contributed above all to documents on the implementation of MiFID II/MiFIR. These included guidelines on certain aspects of the MiFID suitability requirements and the preparation of Q&As on the application of MiFID II/MiFIR. The CNB commented on ESMA's decision on the adoption of temporary product intervention measures under MiFIR as regards the marketing, distribution or sale of binary options and contracts for differences to retail investors. The CNB also contributed to documents on the implementation of the PRIIPs Regulation[62] and to proposals for measures to enhance home-host supervisor cooperation in cross-border service provision.

In the area of creation and harmonisation of trading rules on the secondary securities market, the CNB also helped prepare documents on the implementation of MiFID II/MiFIR and the assessment of implementation status. These included revised regulatory technical standards on the tick size regime for shares, depositary receipts and ETFs[63] and on the transparency requirements for equity investment instruments. The CNB also participated in the preparation of Q&As on the application of MiFID II/MiFIR and the preparation of ESMA opinions on pre-trade transparency waivers, on the treatment of packages under the trading obligation for derivatives and on position limits for commodity derivatives.

In the financial innovation area, the CNB took part in a questionnaire on the legal classification of crypto-assets. It commented on ESMA's related technical advice on initial coin offerings (ICOs) and crypto-assets, which deals primarily with the legal classification of investment tokens under EU law and the approach of competent supervisory authorities to crypto-assets, to which the MiFID II rules on investment instruments do not apply.

The CNB contributed to documents on market infrastructure. With regard to EMIR, revised regulatory technical standards specifying an obligation to clear selected derivative contracts, guidelines on central counterparty conflicts of interest management and guidelines on countercyclical measures in respect of central counterparties, among other things, were prepared. As regards CSDR,[64] guidelines on internalised settlement reporting, settlement fails reporting and standardised procedures and messaging protocols used between investment firms and their professional clients, for example, were drawn up.

61 Commission Delegated Regulation (EU) 1151/2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards on the information to be notified when exercising the right of establishment and the freedom to provide services.

62 Regulation (EU) 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs).

63 Exchange Traded Funds.

64 Regulation (EU) 909/2014 of the European Parliament and of the Council on improving securities settlement in the EU and on central securities depositories.

The CNB also contributed to documents in the fund investment area. With regard to MMFR,[65] guidelines on reporting by money market funds and revised guidelines on stress test scenarios relating primarily to the part of the guidelines on the specification of common reference stress test scenarios, among other things, were prepared. The CNB participated in the preparation of Q&As on the application of MMFR, AIFMD[66] and the UCITS directive.[67]

The CNB contributed to documents in the prospectus area. They included documents on the implementation of the Prospectus Regulation,[68] for example technical advice for the Commission on the format and content of the prospectus, including the EU Growth prospectus,[69] and the scrutiny and approval of prospectuses, draft regulatory technical standards on the content and approval of prospectuses and subsequent reporting of data on approved prospectuses to ESMA, and guidelines on risk factors in prospectuses.

The CNB commented on documents in the area of creating and harmonising rules to protect against market abuse, rules for benchmarks in financial instruments and financial contracts and rules for short selling. For MAR,[70] draft implementing technical standards on cooperation between competent supervisory authorities, ESMA, ACER[71] and other energy authorities and Q&As on the application of the regulation were prepared. As regards the Benchmarks Regulation,[72] guidelines for non-significant benchmarks and Q&As on the application of the regulation were drawn up. Q&As on the application of the SSR[73] were also prepared.

With regard to accounting, auditing and financial reporting, the CNB contributed to a public ESMA statement on European supervisory priorities in financial data supervision for 2008 and the regular ESMA report on activities in the IFRS[74] enforcement area for 2017.

In the area of supervisory reporting, the CNB was involved primarily in the preparation of a data quality methodology for performing technical and analytical tests of the information contained in ESMA's databases (primarily FIRDS[75] and FITRS[76]) or reported directly to the CNB under other sector legislation in ESMA's competence (primarily transaction reports submitted to TREM[77]). The CNB implemented all the required tests except the technical tests of transaction reports, which will be sent to ESMA subsequently.

The CNB helped prepare documents on the implementation of the Credit Rating Agencies Regulation (CRA).[78] These included a review of the guidelines on the use of ratings. The CNB contributed to documents on the implementation of the Securitisation Regulation.[79] These included draft regulatory technical standards on cooperation between competent authorities and the ESAs under the Securitisation Regulation.

65 Regulation (EU) 1131/2017 of the European Parliament and of the Council on money market funds.

66 Directive 2011/61/EU of the European Parliament and of the Council on alternative investment fund managers.

67 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).

68 Regulation (EU) 1129/2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

69 A new, narrower prospectus is being introduced for small and medium-sized enterprises and other issuers.

70 Regulation (EU) 596/2014 of the European Parliament and of the Council on market abuse.

71 Agency for the Cooperation of Energy Regulators.

72 Regulation (EU) 1011/2016 of the European Parliament and of the Council on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

73 Regulation (EU) 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps.

74 International Financial Reporting Standards.

75 Financial Instruments Reference Data System.

76 Financial Instruments Transparency System.

77 Transaction Reporting Exchange Mechanism.

78 Regulation (EC) 1060/2009 on credit rating agencies.

79 Regulation (EU) 2402/2017 of the European Parliament and of the Council laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation.

The CNB took part in a peer review of the application of the ESMA guidelines on ETFs and other UCITS issues focusing on the application of provisions concerning efficient portfolio management techniques.[80]

The CNB also prepared comments on ESMA's responses to the European Commission's public consultations, including those on the supervisory reporting requirements set forth in EU legislation and on the fitness check of public reporting by companies.

The CNB also commented on documents drawn up in the context of Brexit, including for a no-deal Brexit scenario. These included in particular analyses of the impacts of Brexit on cross-border service provision by central counterparties, trade repositories and central securities depositories (including an analysis of their solutions) and the access of entities from the EU 27 to those entities, analyses of commodity derivatives trading and analyses of the impacts of Brexit in the area of trading transparency (including an analysis of their solutions) and the access of British entities to EU markets and EU entities to British markets. The CNB also took part in a questionnaire on the preparedness of entities for Brexit in the case of investment services provision. In addition, the CNB helped prepare a multilateral memorandum of understanding between the EU 27 competent supervisory authorities, including the CNB, and the United Kingdom Financial Conduct Authority (UK FCA) on capital market cooperation in the event of a no-deal Brexit.

European Insurance and Occupational Pensions Authority (EIOPA)

The supreme body of EIOPA is the Board of Supervisors (the Board). The CNB Bank Board appoints a member of the Board on behalf of the CNB. In 2018, the CNB was actively involved through its representatives in the activities of EIOPA's standing committees and working groups.

For the EIOPA Policy Steering Committee, the CNB drew up, among other things, a proposed alternative methodology for assessing the depth, liquidity and transparency of markets for the purposes of constructing the risk-free interest rate curve containing new principles on which future assessments should be based.

The CNB contributed to the peer reviews through which the national supervisory authorities and EIOPA exchange experience with supervisory approaches to various areas of insurance and occupational pension funds. It was involved in the completion of final reports arising from peer reviews dealing with national supervisory authorities' approaches to key functions in insurance undertakings[81] focusing on the application of the principle of proportionality and on the propriety requirements applying to administrative, management or supervisory board members and qualifying shareholders of insurance undertakings.

The CNB became a signatory to the new version of the Luxembourg Protocol governing cooperation and exchange of information between national supervisory authorities in respect of insurance distributors. The Protocol was extended in connection with an amendment of the Insurance Distribution Directive[82] and now covers not only insurance intermediaries, but also insurance undertakings where they act as distributors. Based on comments made by the CNB, the text of the Protocol was amended so as not to give rise to new obligations going beyond the legislation in force.

The CNB also signed the new version of the Budapest Protocol governing supervision and exchange of information between home and host member state supervisory authorities supervising institutions for occupational retirement provision that operate cross-border in connection with the adoption of the directive on the activities of institutions for occupational retirement provision.[83]

80 This was a targeted review involving six competent supervisory authorities (DE, EE, FR, IE, LU and UK). All the competent supervisory authorities were subject solely to a requirement to provide basic information regarding the use of efficient portfolio management techniques.

81 The key functions as defined in Solvency II are the risk management, compliance, internal audit and actuarial functions.

82 Directive 2016/97/EU of the European Parliament and of the Council on insurance distribution.

83 Directive 2016/2341/EU of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision (IORPs).

In 2018, EIOPA sent the European Commission advice on the second set of topics relating to the review of the standard formula for the calculation of solvency capital requirements. This advice concerns, among other things, the loss-absorbing capacity of deferred taxes, unrated debt, simplification of the approach to unlisted equity, treatment of exposures to central counterparties and risk margin.

Within EIOPA, the CNB was also actively involved in further Europe-wide stress tests of insurance and reinsurance undertakings, the results of which were published in aggregate form in December 2018.

EIOPA prepared intensively for Brexit and issued two opinions in this regard – an opinion on the disclosure of information to customers by insurers about the impacts of Brexit and an opinion on the impact of Brexit on the solvency position of insurers and reinsurers. The CNB was actively involved in the preparation of memoranda of understanding with UK supervisory authorities governing cooperation and exchange of information on cross-border entities and groups between supervisory authorities in the event of a no-deal Brexit in the areas of insurance and occupational pensions.

Joint Committee of the European Supervisory Authorities
The Joint Committee is a forum for cooperation between the EBA, ESMA and EIOPA to ensure consistency of activities across financial market sectors. The CNB contributed to the activities of its sub-committees.

Draft and revised regulatory and implementing technical standards on, among other topics, the clearing obligation and risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty under EMIR, the mapping of credit assessments of external credit assessment institutions (ECAIs) for the purposes of determining institutions' capital requirements under CRR and Solvency II[84] and cooperation between competent supervisory authorities and the ESAs under the Securitisation Regulation were prepared in 2018.

ESA guidelines on cooperation and information exchange between competent supervisory authorities under the AMLD4 directive (The AML Colleges Guidelines)[85] and revised guidelines on complaints handling in the securities and banking sectors, with an extended scope of application to non-bank credit providers and credit intermediaries under MCD and to account information and payment initiation service providers under PSD 2, for example, were prepared in 2018.

The CNB also took part in national-level questionnaires on, among other issues, the implementation of the requirements laid down in the PRIIPs Regulation and the content of the future multilateral agreement on exchange of information between the ECB and competent supervisory authorities under AMLD5.[86]

5.2 COOPERATION WITHIN EUROPEAN SYSTEMIC RISK BOARD (ESRB) STRUCTURES

The CNB was involved in the activities of the European Systemic Risk Board at the level of both the General Board and the Advisory Technical Committee (ATC) and its standing substructures – the Analysis Working Group (AWG) and the Instruments Working Group (IWG). CNB representatives also worked in expert teams focusing on property financing risks, the Member States' approaches to setting the countercyclical capital buffer and the cross-border impacts and coordination of macroprudential policy in the EU.

According to the ESRB report on the use of macroprudential instruments in the EU in 2018, the Czech Republic is one of the most active users of macroprudential policy and one of the countries in which macroprudential instruments are configured consistently with developments in the banking sector. Most of the macroprudential measures taken in EU

84 Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II).

85 Directive 2015/849/EU of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

86 Directive 2018/843/EU of the European Parliament and of the Council amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

countries last year were targeted at risks associated with rapid credit growth. In addition to the countercyclical buffer, announced at a higher-than-zero rate in ten Member States at the end of 2018, 18 countries announced upper limits on indicators of risks associated with housing loans.

From the CNB's perspective, the key topic last year was the preparation of the second assessment of systemic risks associated with residential real estate financing. In 2016, the ESRB issued warnings to eight Member States based on the results of the first assessment. Given the rapid growth in real estate prices and mortgage credit in numerous Member States, the ESRB can again be expected to issue warnings or recommendations in several cases following the completion of the second assessment in 2019.

During 2018, the CNB notified the ESRB of changes in the countercyclical capital buffer rate.[87] It also confirmed the list of five banks subject to the systemic risk buffer and seven other systemically important institutions located in the Czech Republic. It additionally informed the ESRB of modifications to its recommendations on prudent mortgage lending,[88] specifically the introduction of DTI[89] and DSTI[90] caps. In 2018, the CNB fulfilled the reporting duty to the ESRB arising from the recommendation on funding of credit institutions, the recommendation on guidance for setting countercyclical buffer rates and the recommendation on the assessment of cross-border effects of national macroprudential policy and voluntary reciprocity of measures adopted by macroprudential authorities of other EU countries.

The CNB was actively involved in the debate on the review of macroprudential policy in the EU, within which it put forward proposals at EU Council level for strengthening the ESRB's organisational autonomy. In the meetings of ESRB structures in 2018, the CNB commented mainly on macroprudential approaches to non-performing loans, the extension of the application of macroprudential instruments to insurance undertakings, risks associated with commercial real estate financing and the implications of the new IFRS 9 accounting standard.

The ESRB was involved in the design of the adverse scenario for the EU-wide stress tests of banks and the EU-wide stress tests of insurance undertakings. In view of the increased strictness of the adverse scenarios of its own stress test scenarios, the CNB supported the relevant proposals.

5.3 COOPERATION WITHIN THE COMMITTEES OF THE EUROPEAN CENTRAL BANK (ECB)

Financial Stability Committee (FSC)

The FSC, whose primary aim is to help ECB bodies fulfil their mandate in the field of supervision of financial institutions and the stability of the EU financial sector, usually meets only in its narrow euro area composition without CNB representatives in attendance. Occasional meetings in the full composition are usually organised as joint meetings with the ESRB Advisory Technical Committee (ESRB ATC). The final version of the report on systemic liquidity risk, the finalised database for the assessment of macroprudential policy in EU Member States and the framework for assessing Brexit-related risks were discussed on this platform in 2019.

Market Infrastructure and Payments Committee (MIPC)

The CNB was actively involved in the activities of the MIPC and its two standing working groups on Payment Systems Policy and Oversight, in which the CNB has its representatives. Most of the issues discussed in the MIPC concern the euro area and the non-euro area countries participating in T2 (TARGET2) and T2S (TARGET2-Securities).

87 In June 2018 the countercyclical capital buffer rate was set at 1.5% of the total risk exposure with effect from 1 July 2019 and in December 2018 it was set at 1.75% with effect from 1 January 2020.

88 In line with its financial stability mandate, the CNB is seeking new statutory powers to set the conditions under which banks may provide mortgage loans.

89 The ratio of total debt to total net annual income.

90 The ratio of total monthly repayment of loans (overdrafts, card credit and so on), including the loan currently being applied for, to total net monthly income.

In 2018, the MIPC repeatedly discussed cyber security, with an emphasis on Eurosystem market infrastructure. A framework for testing the cyber resilience of payment infrastructure systems (the TIBER-EU Framework – Threat Intelligence-based Ethical Red Teaming), which is available to EU central banks, was completed and approved. The MIPC also monitored developments in the area of distributed ledger technology (DLT), where a DLT-based payment application is being prepared with the aim of learning more about the operation of this technology in practice. However, practical use of this application is not expected for the time being. Careful analysis of the e-krona – a digital currency issued by the central bank – continued in Sweden. A methodology for a Europe-wide study of the costs of retail payments was prepared during the year but its implementation was cancelled due to a lack of interest from central banks. The approach of non-bank financial institutions to payment systems was also discussed.

Fast euro interbank payments (instant payments) in the euro area remained an important topic in 2018. In November 2018, the Eurosystem put into operation a new clearing system for instant payments (the Target Instant Payment System, TIPS) alongside the systems of commercial banks. Instant euro payments are just starting to get up and running in the euro area.

5.4 COOPERATION WITH THE EU COUNCIL AND ITS STRUCTURES

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

The CNB was involved in the preparation of the Czech Republic's positions for ECOFIN and wider Eurogroup meetings, mainly in the form of proposals for modifications to the mandates of Ministry of Finance representatives at individual meetings.

The CNB drafted its own opinions and helped prepare and supplemented the Ministry of Finance's instructions for EFC meetings, which CNB representatives regularly attended, and for FSC meetings.

A key topic from the CNB's perspective was the deepening of the Economic and Monetary Union (EMU), including the completion of the Banking Union. Talks on deepening EMU continued in the wake of the European Commission's December 2017 package of legislative and non-legislative proposals for deepening EMU. On the political level, agreement was reached on a set of conditions for the partial reform of the European Stabilisation Mechanism, including its use as a common backstop for the SRF. Discussions were also held on the concept of a budgetary instrument for convergence and competitiveness for euro area member states and, on a voluntary basis, for ERM II member states, which should become part of the EU budget.

The CNB monitored developments in the Banking Union area in 2018. Following the EU Council's June 2016 conclusions on a roadmap to complete the Banking Union, agreement was reached in the Council on a package of legislative proposals to reduce risks in national banking sectors. The proposal to create a European Deposit Insurance Scheme (EDIS) continued to be discussed in the Ad Hoc EU Council Working Party on the Strengthening of the Banking Union, the meetings of which were also attended by CNB representatives. Further to the results of these meetings it was decided to set up a High Level Working Group to focus solely on this area. Ways of providing liquidity to credit institutions that have been through the resolution process were also discussed for the first time. In 2018, Bulgaria became the first non-euro area state to indicate its intention to join the Banking Union.

In line with its long-held position and with regard to its financial stability mandate, the CNB pointed to the need to follow a clear sequence of steps to complete the Banking Union according to the June 2016 roadmap. It is first necessary to achieve a genuine reduction of risks in national banking sectors, as it is not sufficient to rely on the formal adoption of a banking package of legislative proposals to reduce risks in the absence of any experience with the practical implementation of such a package. Only then can a political debate be held on potential further risk sharing.

The CNB participated in discussions of other issues during the period under review. These included ways of reducing the high NPL levels in EU banking sectors and avoiding a potential future build-up of NPLs in banks' balance sheets. The preparation of common EU positions for negotiations in the IMF, covered bonds, sustainable finance and FinTech were among the other issues discussed. Considerable attention was paid to a review of the legislative framework for the European System of Financial Supervision, including a strengthening of the framework for prudential supervision and supervision of financial institutions in the money laundering area. Proposed regulations on the introduction of sovereign bond-backed securities and on the establishment of a European Investment Stabilisation Function and a Reform Support Programme and legislative proposals in the capital market area were also debated.

MONEYVAL Committee

The MONEYVAL Committee made an evaluation visit to the Czech Republic in March 2018 as part of the fifth round of the evaluation of the Czech Republic in the AML/CFT[91] area. On the basis of the documents submitted – questionnaires to determine technical alignment with the recommendations of the OECD's Financial Action Task Force (FATF) and the effectiveness of measures adopted – and the findings of the evaluation visit, the MONEYVAL Committee prepared a Mutual Evaluation Report, which was discussed and adopted at the 57th Plenary Session of the MONEYVAL Committee held on 3–7 December 2018.

The report positively assessed the application of preventive AML/CFT measures in the banking sector while pointing to differences across institutions in the understanding and management of AML/CFT risks. The evaluators described the CNB's licensing mechanism as robust and praised the quality of the CNB's AML/CFT supervision of financial institutions, especially credit institutions and insurance companies. MONEYVAL recommended that the CNB increase the frequency and amounts of sanctions for breaches of the AML/CFT regulations so that the sanctions are sufficiently dissuasive.

A follow-up evaluation awaits the Czech Republic in mid-2020. As part of such evaluations, the country concerned submits a report to the MONEYVAL Committee on the actions it has taken and on its progress in eliminating the problems identified and complying with the recommendations defined in the Mutual Evaluation Report.

5.5 COOPERATION WITHIN OTHER INTERNATIONAL ORGANISATIONS AND ASSOCIATIONS

Basel Committee on Banking Supervision (BCBS) – BCG

Relations between the CNB and the Basel Committee on Banking Supervision (BCBS) in 2018 continued to be based indirectly on the CNB's activity in the Basel Consultative Group (BCG), which intermediates the exchange of information with the BCBS. The topics discussed at its meetings included regulatory frameworks for the treatment of markets, credit and operational risk and thresholds for the regulatory capital buffers of globally systemically important financial institutions. Other issues on the agenda included treatment of sovereign exposures, proportionality, identification and measurement of non-performing assets, liquidity coverage ratio assessment (in the context of the regulatory consistency assessment programme), crypto assets, FinTech and cyberkinetic risks.

International Organisation of Pension Supervisors (IOPS)

CNB representatives attended the annual general meeting of the IOPS in late October 2018. The activities of the IOPS last year were focused on guidelines on the application of sustainability factors in supervision of pension fund investment and risk management and on case studies of the impacts of digitalisation of financial services on supervisory practices. Future activities will be centred on FinTech supervision, cyber security and pension fund investment in complex/structured products, for example. In 2018, the CNB provided IOPS with an up-to-date overview of pension fund investment regulation, detailed information on the fees and charges applied by pension funds in the Czech Republic and information on measures introduced in the Czech Republic to control pension funds' costs.

91 Anti-Money Laundering/Combating the Financing of Terrorism.

International Association of Insurance Supervisors (IAIS)

The CNB was involved in the work of the IAIS in 2018. Specifically, it was represented in the Capital, Solvency and Field Testing Working Group, the main task of which is to develop the first international insurance capital standard and test it in internationally active insurance groups. The CNB sent the IAIS a completed questionnaire on the implementation of Insurance Core Principles 1 and 2 in the Czech Republic. The questions concerned, for example, the CNB's independence and powers, transparency of regulatory requirements and supervisory procedures, and the code of conduct and confidentiality obligations applying to supervisory staff.

International Organization of Securities Commissions (IOSCO)

The CNB was actively involved in IOSCO's activities in 2018. Specifically, it attended the meetings of the European Regional Committee (ERC) and the Growth and Emerging Markets Committee (GEMC). The CNB was also present at the IOSCO annual general meeting on 7–10 May 2018. IOSCO's activities in 2018 were focused on FinTech (the regulatory approach to ICOs and tokens), the use of new technology in supervision (big data and artificial intelligence), sustainable finance and the use of leverage by collective investment funds. During the year, IOSCO examined the impact of the European Union General Data Protection Regulation (GDPR) on the existing cooperation among supervisory authorities, which is based on an MMoU. The IOSCO members discussed a supplement to the MMoU taking the form of an administrative arrangement.

5.6 COOPERATION WITHIN SUPERVISORY COLLEGES AND OTHER ACTIVITIES

Supervisory colleges are established to ensure effective supervision of international groups. They aim to deepen and intensify cooperation between national supervisory authorities at the level of supervision of groups and individual entities. By actively participating in these meetings, the CNB strives for open communication primarily on the significant risks of the group and on the risks of the supervised institutions.

In 2018, the CNB was involved in nine supervisory colleges for the following European banking groups: Erste, ING, J&T Finance Group, KBC, Raiffeisenbank, Sberbank Europe, Société Générale, UniCredit and Wüstenrot. In the case of J&T Finance Group, the CNB was the consolidating supervisory authority. The main task of the colleges is to safeguard and coordinate the process leading to the approval of joint decisions on capital, liquidity and group recovery plans. The colleges also serve as a platform for harmonising the approaches of supervisory authorities in individual areas and for clarifying a number of methodological issues. The discussions in the colleges also focused on the approach to the remuneration of bank staff in connection with the performance of their financial groups.

Based on an analysis drawn up in the Supervisory Review and Evaluation Process (SREP), the CNB provided the supervisory colleges with risk profile assessments and draft requirements for the minimum capital adequacy and liquidity ratios of domestic subsidiaries. Supervisory colleges also assess recovery plans at the level of individual banking groups. The CNB pushes for a group recovery plan structure that takes sufficient account of recovery planning at the level of individual domestic institutions and sees to it that group recovery measures do not adversely affect the stability of domestic banks.

In 2018, the CNB was also involved in 12 supervisory colleges for the following European insurance groups: Aegon, Allianz, AXA, BNP Paribas Cardif, Generali, KBC Insurance, MetLife Inc., Munich Re, NN, UNIQA, Sogecap and VIG. The meetings focused, for example, on group internal models, the implementation of the Solvency II requirements by individual entities, risk assessments of insurance undertakings and insurance groups and the evaluation of risk and solvency self-assessment reports.

The CNB was also involved in a supervisory college for the Germany-based central counterparty European Commodity Clearing AG, which was providing services to a Czech trading facility (POWER EXCHANGE CENTRAL EUROPE, a.s.). Among the topics discussed at the college meetings were the results of a regular annual review of compliance with the requirements applying to central counterparties and an assessment of the risks central counterparties are or may be exposed to. In the capital market, the CNB continued to work in partnership with other supervisory authorities on the basis of IOSCO and ESMA multilateral memoranda of understanding.

PART B
THE FINANCIAL MARKET IN 2018

1. THE ECONOMIC ENVIRONMENT IN 2018[92]

The pace of economic growth in the Czech Republic slowed in 2018. The current real GDP growth estimate for last year is 2.9%, which means a slowdown of 1.6 percentage points in the performance of the economy compared with 2017.

A key factor of economic growth in 2018 was higher final consumption expenditure. Conditions for solid year-on-year growth of household final consumption expenditure of 3.1% were created by significant growth in real wages of 6%, the highest figure recorded since 2002. Government final consumption expenditure, which grew by 3.7% year on year, also contributed significantly to economic growth. There was also a marked increase in investment activity, with the volume of fixed capital formation rising by 10.4%. Increased investment growth was recorded in the household, general government and non-financial corporations sectors. A positive balance of trade in goods and services also contributed to the growth of the economy.

The average annual rate of inflation for 2018, as expressed by the consumer price index, was 2.1%, i.e. 0.4 percentage point lower than in the previous period. After having returned from lower values into the tolerance band around the inflation target in 2017, inflation continued to fluctuate in relatively close proximity to the CNB's inflation target of 2% throughout 2018. Housing and energy prices were the biggest contributors to inflation.

The annual average exchange rate of the Czech koruna against the euro strengthened slightly in year-on-year comparison, by 2.6% to CZK 25.64 to the euro. This was due mainly to global factors. The strengthening of the exchange rate of the Czech koruna against the US dollar was more significant, since its average value decreased by 7% year on year to CZK 21.73 to the dollar.

In 2018, the CNB, taking into consideration economic developments, continued to tighten monetary policy, raising the two-week repo rate in five steps of 25 basis points. In the course of the year, the rate was raised by 1.25 percentage points to 1.75%. This gradual increase in the key monetary policy rate was accompanied by rises in the CNB's discount and Lombard rates.

In 2018, the Czech economy recorded a lower current account surplus than in 2017. According to preliminary information, the surplus was CZK 15.5 billion. This represented a year-on-year decrease of CZK 67.9 billion. This decrease mainly reflected a lower trade surplus, which decreased by CZK 47.9 billion year on year.

92 The data in this section are based on CZSO and CNB data available as of 18 April 2019.

On the labour market, the downward trend in unemployment observed since 2013 continued, though at a slower pace than in previous years. The average annual unemployment rate for 2018 decreased by 0.6 percentage point year on year to 2.3%. As in the previous two years, this was the lowest level recorded among all the EU Member States. The record-low unemployment rate, accompanied by excess demand for workers, created space for very high growth in wages, which, in nominal terms, increased by an average of 8.1% year on year, fuelled in part by a pronounced increase in wages in the public sector.

2. CREDIT INSTITUTION SECTORS[93]

2.1 STRUCTURE OF THE BANKING SECTOR

The Czech banking sector consisted of 50 banks at the end of 2018.[94] Three new entities thus entered the Czech banking market compared with 2017. All three were branches of foreign banks. (See Table B.II.1)

At the end of 2018, the domestic banking sector comprised four large banks, five medium-sized banks, nine small banks, five building societies and 27 foreign bank branches, including two branches of foreign banks from third countries.[95]

A total of 447 foreign credit institutions had provided notification under the single licence regime in the Czech Republic at the end of 2018. Four domestic banks were operating branches in Slovakia and eleven were offering their services and products in EU Member States without establishing a branch.

The large banks were managing the largest volume of assets. Their share in the sector's total assets rose by 0.7 percentage point year on year to 60.1%. The shares of small and medium-sized banks in the sector's total assets also increased (by 0.3 percentage point to 17.3% and by 0.4 percentage point to 7.7% respectively), while the shares of foreign bank branches and building societies in the total assets of the sector recorded year-on-year decreases (of 1.1 percentage points to 9.3% and of 0.3 percentage point to 5.6% respectively). (See Table B.II.2)

The degree of concentration of the banking sector, as expressed by the shares of the three largest banks in the sector's total assets, largely matched the shares of the sector's largest client loan providers and deposit takers in the relevant aggregates. The three banks with the largest amounts of client loans accounted for roughly 50% of client loans in the sector. This was a similar level of concentration as in the case of the shares of the three banks with the largest amounts of deposits in the aggregate deposits of the sector. Similarly, the five banks with the highest client deposits and loans accounted for roughly

TABLE B.II.1

NUMBER OF BANKS
(as of end of period)

	2016	2017	2018
BANKING SECTOR, TOTAL	45	47	50
of which:			
Banks	17	18	18
Foreign bank branches	23	24	27
Building societies	5	5	5

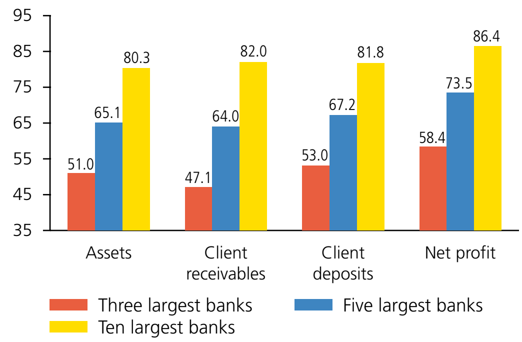
TABLE B.II.2

SHARES OF BANK GROUPS IN TOTAL ASSETS
(as of end of period; in %)

	2016	2017	2018
BANKS, TOTAL	100.0	100.0	100.0
of which:			
Large banks	59.3	59.4	60.1
Medium-sized banks	16.6	17.0	17.3
Small banks	7.5	7.3	7.7
Foreign bank branches	9.5	10.4	9.3
Building societies	7.1	5.9	5.6

CHART B.II.1

BANKING SECTOR CONCENTRATION
(in %; banks as of 31 December 2018)



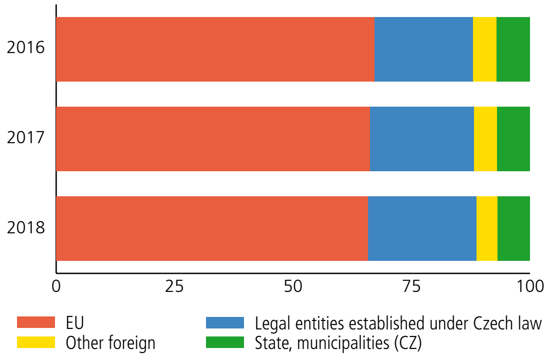
93 Data from reports submitted under the reporting duty by economic agents subject to CNB supervision were used as the primary source of data for the second part of the Financial Market Supervision Report, i.e. Part B. In some cases, data from reports used for the purposes of the CNB's monetary statistics are used to a limited extent. In these cases, an explicit reference to the source of the data is always provided.

94 For the purposes of this sub-section, the term "banks" covers banks, foreign bank branches and building societies. Unlike credit institutions, banks thus do not include credit unions. The credit union sector is the subject of a separate sub-section.

95 Banks are classified into bank groups by size based on the share of their assets in the total aggregate assets of the banking sector. The group of large banks contains banks whose total assets exceed 10% of the total aggregate assets of the banking sector. The group of medium-sized banks comprises banks with total assets between 2% and 10% of total banking sector assets. The classification into size groups is reviewed once a year based on total assets as of 31 December. The stability of the banks' total assets is taken into account in this process.

CHART B.II.2

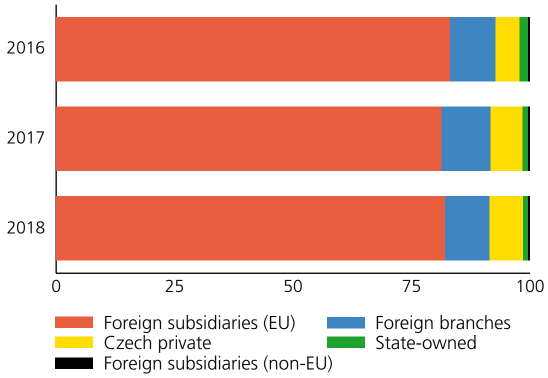
OWNERSHIP STRUCTURE
(in %; banks as of end of given year)



Note: Share in registered capital.

CHART B.II.3

OWNERSHIP OF BANKING SECTOR ASSETS
(in %; banks as of end of given year)



two-thirds of the total aggregates. The degree of concentration of the banking market has shown a high level of stability in recent years. (See Chart B.II.1)

2.1.1 Ownership structure

A total of 70.3% of the registered capital of banks was foreign owned in 2018, down by 1.1 percentage points compared with the previous year. Almost two-thirds (65.8%) of the registered capital of the Czech banking sector came from EU Member States. Foreign owners from non-EU countries held a 4.5% share of the registered capital of the Czech banking sector, representing a year-on-year decrease of 0.3 percentage points. (See Chart B.II.2)

Foreign owners were managing 91.8% of the banking sector's assets at the end of 2018.[96] Subsidiary banks with parent companies from the EU accounted for more than four-fifths of the assets (82.1%). The share of these subsidiaries in total assets grew by 0.8 percentage point year on year, while that of foreign entities fell by 1 percentage point to 9.4%. Czech-controlled banks' asset share rose by 0.4 percentage point year on year to 7.1%. The small share of state-owned banks in total banking sector assets was meanwhile virtually unchanged from the previous year at 1.1%. (See Chart B.II.3)

96 This refers to the share of the banking sector's total assets controlled by foreign entities (i.e. foreign bank subsidiaries or foreign bank branches). A foreign bank entity is one in which foreign owners hold directly or indirectly at least 50% of the shares.

2.2 EMPLOYEES AND BANKING UNITS

The registered number of employees[97] in the banking sector at the end of 2018 remained at approximately the same level as in the previous year. Similarly, there was no major change in the number of banking units, whereas in previous years this number had been recording a significant downward tendency. (See Table B.II.3 and Chart B.II.4)

In 2018, the large banks cumulatively accounted for almost two-thirds (65.3%) of the total number of registered employees, while medium-sized banks accounted for 17.6% and small banks for 7.4%. Foreign bank branches and building societies employed 6.0% and 3.7%, respectively, of the total number of registered employees.

The efficiency of the banking sector, as expressed, for example, by net profit per employee, increased by CZK 0.1 million to CZK 1.9 million. The increase in efficiency can also be illustrated by an increase in assets per employee of 4% to CZK 173.9 million.

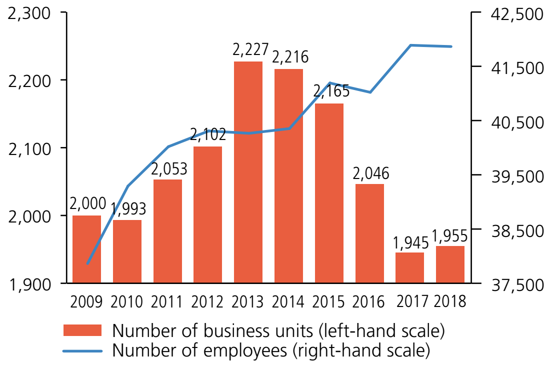
TABLE B.II.3

BANKING SECTOR EMPLOYEES AND BUSINESS UNITS
(as of end of period)

	2016	2017	2018
NUMBER OF EMPLOYEES	41,020	41,880	41,864
Number of business units	2,046	1,945	1,955
Number of employees			
per bank	911.6	891.1	837.3
per business unit	20.0	21.5	21.4
Number of citizens			
per bank (thous.)	235.1	225.7	212.5
per business unit (thous.)	5.2	5.5	5.4
per employee	257.9	253.3	253.8

CHART B.II.4

NUMBER OF EMPLOYEES AND BUSINESS UNITS
(inside and outside CZ; as of end of period)



97 The total number of banking sector employees encompasses employees in the Czech Republic and employees in all countries where the banks operate. The registered number of employees covers both part-time and full-time workers.

2.3 ACTIVITIES OF THE BANKING SECTOR

2.3.1 Banking sector assets

The banking sector had total assets of CZK 7,281 billion at the end of 2018. This represented a year-on-year increase of CZK 279.1 billion, or 4% in relative terms. (See Table B.II.4)

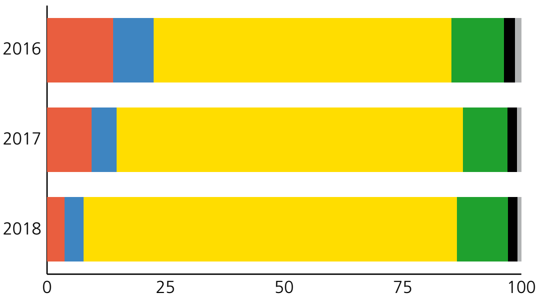
Table B.II.4

BANKING SECTOR ASSETS
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
NET ASSETS, TOTAL	5,960.4	7,001.9	7,281.0	4.0
Cash	55.5	60.1	62.0	3.2
Cash balances with central banks	743.0	579.7	165.8	-71.4
Demand deposits of credit institutions	34.5	24.9	42.8	71.8
Financial assets held for trading	107.1	81.6	92.5	13.3
Financial assets designated at fair value through profit or loss	9.8	5.2	10.3	99.4
Financial assets at fair value through OCI	388.5	275.5	190.7	-30.8
Financial assets at amortised cost	4,406.4	5,769.6	6,513.0	12.9
Loans and advances	3,746.5	5,112.1	5,731.0	12.1
Debt securities	659.9	657.5	782.0	18.9
Derivatives – hedge accounting	43.1	32.0	33.0	3.3
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1.4	-6.9	-5.7	-17.2
Investments in subsidaries, joint ventures and associates	92.5	95.3	97.1	1.9
Tangible assets	23.1	24.9	24.8	-0.5
Intangible assets	21.6	24.8	27.6	11.3
Other assets	33.9	35.4	27.3	-23.1

Chart B.II.5

STRUCTURE OF BANKING SECTOR ASSETS
(in %; as of end of period)



The most significant asset item in the Czech banking sector was loans and other receivables, whose share in total assets increased by 5.7 percentage points year on year to 78.7%.

Cash and other demand deposits accounted for 3.7% of total assets. This represented a year-on-year decrease of 5.8 percentage points due to a decrease in cash balances with central banks. The share of debt securities held to maturity in total assets conversely increased by 1.3 percentage points year on year to 10.7%. A continued relative decrease was seen for other financial assets,[98] which made up 4% of the sector's assets at the end of 2018. Tangible and intangible assets represented 2.1% of the sector's total assets and thus remained at the same level as at the end of the previous period. Other assets not mentioned above formed the residual share of 0.7%. (See Chart B.II.5)

98 Other financial assets comprise financial assets held for trading, financial assets designated at fair value through profit or loss and financial assets designated at fair value through OCI.

Large banks had the largest share in the overall growth in the banking sector's assets, recording a year-on-year increase in their balance sheet total of CZK 217.9 billion, or approximately 5%. The assets of medium-sized banks increased by 5.5% to CZK 1,257.1 billion, while those of small banks grew by 9.7% to CZK 564.1 billion. By contrast, the balance sheet totals of foreign bank branches and building societies decreased by 7% and 1.3% to CZK 678 billion and CZK 408 billion respectively. (See Table B.II.5)

Some asset-side banking operations that are not taken into account on banks' balance sheets, such as loan commitments and financial guarantees given, are reported in their off-balance sheet accounts. At the end of 2018, the banking sector's off-balance sheet assets totalled CZK 1,326.2 billion, a year-on-year increase of 7.4%.[99] The size of off-balance sheet assets was thus almost one-fifth of the balance sheet total, much the same as in the previous two years.

TABLE B.II.5

BALANCE SHEET TOTALS OF BANK GROUPS
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
BANKS, TOTAL	5,960.4	7,001.9	7,281.0	4.0
of which:				
Large banks	3,536.3	4,156.0	4,373.9	5.2
Medium-sized banks	991.2	1,191.5	1,257.1	5.5
Small banks	445.0	514.3	564.1	9.7
Foreign bank branches	567.2	726.8	678.0	-6.7
Building societies	420.7	413.3	408.0	-1.3

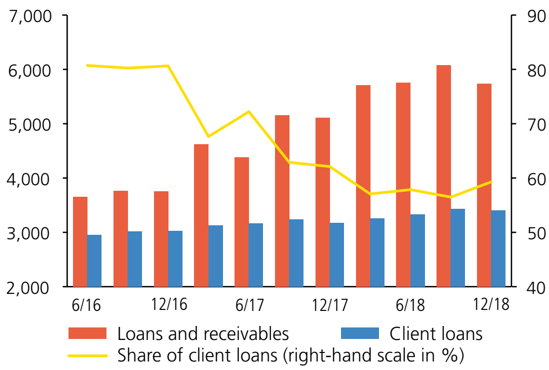
2.3.2 Loans and receivables of the banking sector[100]

Loans and receivables (net of provisions) – the most significant asset class in the banking sector – amounted to CZK 5,739.8 billion at the end of 2018 and increased by CZK 627.6 billion, or 12.3%, year on year. (See Chart B.II.6)

Loans to and receivables from central banks, which increased by around one quarter to CZK 2,135.4 billion, saw the largest year-on-year change. Year-on-year growth was also recorded for loans to and receivables from households (of CZK 122.1 billion), non-financial corporations (of CZK 70.2 billion) and general government (of CZK 1.1 billion). By contrast, loans to and receivables from credit institutions dropped by almost 10% to CZK 201 billion. (See Table B.II.6)

CHART B.II.6

LOANS AND RECEIVABLES OF BANKING SECTOR
(in CZK billions; as of end of period)



99 The data on off-balance sheet items are reported at nominal value, which expresses the maximum potential exposure to credit risk. Collateral held and other credit enhancements are not taken into account.

100 In addition to loans and receivables measured at amortised cost, the figures for the category of loans and receivables presented in this sub-section include financial assets recorded as financial assets held for trading, financial assets other than for trading designated at fair value through profit or loss and financial assets designated at fair value through OCI. These categories together account for a marginal share (less than one thousandth) of aggregate loans.

TABLE B.II.6

LOANS AND RECEIVABLES BY SECTOR
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
LOANS AND RECEIVABLES, TOTAL	3,753.8	5,112.2	5,739.8	12.3
Central banks	537.0	1,714.2	2,135.4	24.6
General government	68.2	60.3	61.4	1.8
Credit institutions	189.8	222.7	201.0	-9.7
Other	2,958.7	3,115.0	3,342.1	7.3
Other financial institutions	261.7	270.7	305.3	12.8
Non-financial corporations	1,232.6	1,261.2	1,331.4	5.6
of which:				
Project financing	208.1	233.2	254.7	9.2
Households	1,464.4	1,583.2	1,705.3	7.7
of which:				
Consumer credit	196.8	216.1	229.4	6.2
Loans secured by property	1,069.3	1,153.4	1,295.0	12.3
CLIENT LOANS	3,027.0	3,175.3	3,403.4	7.2

Client loans and receivables ("client loans"[101]) amounted to CZK 3,403.4 billion at the end of 2018, up by 7.2% year on year. At the end of 2018, client loans accounted for 59.3% of total loans and receivables. This share dropped by 2.8 percentage points year on year, mainly as a result of a higher share of loans to and receivables from central banks. (See Chart B.II.6 and Table B.II.6)

Loans to households formed the largest component of client loans at the end of 2018. They recorded a year-on-year increase of 7.7% to CZK 1,705.3 billion, accounting for 50.1% of the banking sector's total client loans. Of the loans provided to households in 2018, loans secured by property dominated, accounting for more than three-quarters (75.9%) of the loans provided to this sector. Consumer credit made up 13.5% of loans provided to households, while the remaining 10.6% consisted mainly of other secured loans, credit card receivables and current account receivables. (See Chart B.II.8 and Table B.II.6)

Loans to non-financial corporations were the second-largest component of client loans. Their share in client loans decreased by 0.6 percentage point year on year to 39.1%, despite recording an absolute increase of CZK 70.2 billion to CZK 1,331.4 billion.

CHART B.II.7

ANNUAL RATES OF GROWTH OF CLIENT LOANS
(year-on-year change in %)

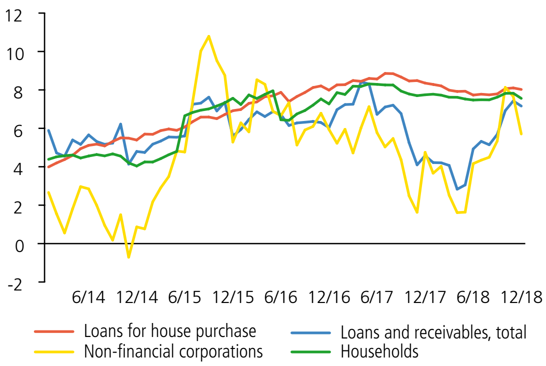
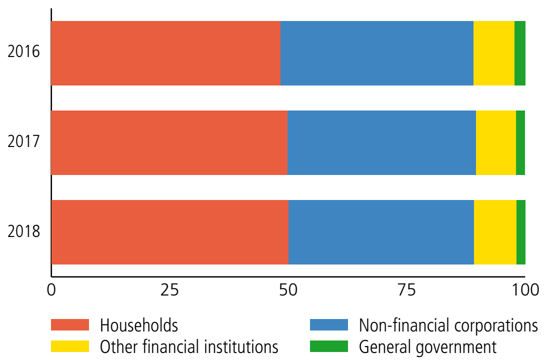


CHART B.II.8

CLIENT LOANS BY ECONOMIC SECTOR
(in %; as of end of period)



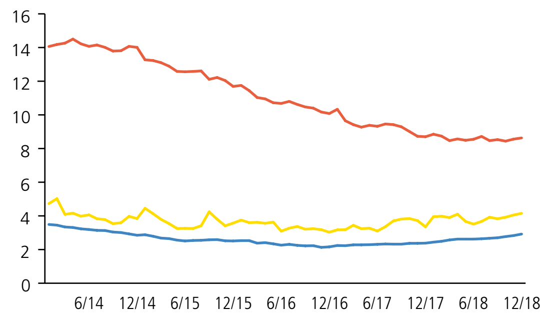
101 Client loans represent the aggregate of loans to and receivables from general government, other financial institutions, non-financial corporations and households. Loans to and receivables from central banks and other credit institutions are not included in this category.

Banks' lending to other financial institutions amounted to CZK 305.3 billion at the end of 2018. This represented 9% of client loans. Loans to general government recorded the smallest share of client loans (1.8%) with a volume of CZK 61.4 billion.

Average rates on new housing loans and other loans rose slightly in 2018 (by 0.54 percentage point to 2.92% and by 0.8 percentage point to 4.15% respectively). In contrast, the average rate on new consumer credit fell slightly in year-on-year comparison (by 0.07 percentage point) to 8.63%. (See Chart B.II.9)

CHART B.II.9

INTEREST RATES ON NEW LOANS
(individuals; in %)



2.3.3 Structure and growth of securities and equity portfolios

At the end of 2018, the total book value of the securities and equity ("total investments") in the banking sector's portfolio was CZK 1,101.1 billion, up by CZK 56.6 billion, or 5.4%, year on year. (See Table B.II.7)

TABLE B.II.7

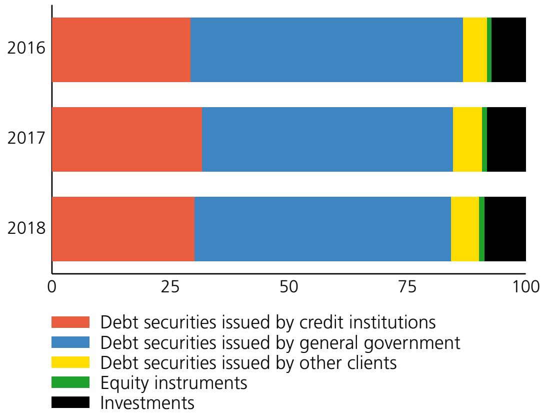
SECURITIES BY ISSUER'S SECTOR, PORTFOLIO AND TYPE
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
SECURITIES AND INVESTMENTS, TOTAL	1,182.3	1,044.5	1,101.1	5.4
Debt securities, total	1,086.3	948.3	992.8	4.7
Debt securities issued by credit institutions	345.9	331.2	331.1	0.0
Debt securities issued by general government	680.1	552.5	596.7	8.0
Debt securities issued by other clients	60.3	64.6	65.1	0.8
Equity instruments	10.4	10.5	12.3	17.8
Shares	4.9	5.2	5.4	3.6
Units	5.1	5.0	7.0	38.3
Other equity instruments	0.4	0.3	0.0	-98.8
Investments in subsidiaries, associates and joint ventures	85.6	85.7	95.9	11.9
Investments with substantial influence	1.8	1.6	2.5	58.3
Investments with substantial influence in credit institutions	0.0	0.0	0.0	0.0
Other investments with substantial influence	1.8	1.6	2.5	58.3
Investments with controlling influence	83.7	84.2	93.5	11.1
Investments with controlling influence in credit institutions	43.0	46.7	49.5	5.9
Other investments with controlling influence	40.7	37.4	44.0	17.5

The dominant category of total investments was debt securities, which totalled CZK 992.8 billion and accounted for over 90% of the sector's total portfolio structure. The most important type of debt securities at the end of 2018 was debt securities issued by general government. They totalled CZK 596.7 billion, which corresponded to a year-on-year increase of CZK 44.2 billion, or 8%. Their share in total investments also increased by 1.3 percentage points to 54.2%.

CHART B.II.10

SECURITIES AND INVESTMENTS OF BANKING SECTOR
(in %; as of end of period)



Debt securities issued by credit institutions also accounted for a significant share (30.1%) of the sector's total investments, They were virtually unchanged year on year at CZK 331.1 billion.

The total volume of debt securities issued by other clients increased slightly year on year (by 0.8%), totalling CZK 65.1 billion at the end of 2018. These securities accounted for almost 6% of total investments. (See Chart B.II.10)

The Czech banking sector's focus on client lending is reflected, among other things, in less significant investment activity by the sector in the form of collective investment and stock market trading. At the end of 2018, the capital instruments of the banking sector totalled CZK 12.3 billion, representing a year-on-year increase of CZK 1.9 billion and a share in total investments of 1.1%.

Investments in subsidiaries, associates and joint ventures made up the remaining 8.7% of total investments. These investments totalled CZK 95.9 billion at the end of 2018. Investments with controlling influence accounted for the biggest share.

The investment holdings were concentrated mainly in the portfolios of large banks, where these investments accounted for 88.1% of the total volume of such assets in the sector. These assets consisted mainly of ownership interests in bank subsidiaries (building societies and mortgage banks).

2.3.4 Structure and growth of banking sector liabilities

At the end of 2018, banks' liabilities of CZK 6,704.7 billion accounted for 92.1% of the sector's balance sheet total. They increased by CZK 259.1 billion, or 4.0%, year on year. Equity recorded year-on-year growth of CZK 19.9 billion, or 3.6%, to CZK 576.3 billion. (See Table B.II.8)

TABLE B.II.8

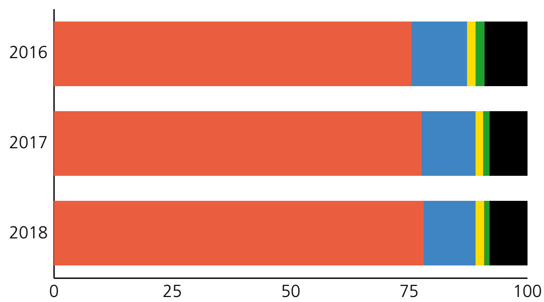
BANKING SECTOR LIABILITIES
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
LIABILITIES AND EQUITY, TOTAL	5,960.4	7,001.9	7,281.0	4.0
Liabilities, total	5,419.6	6,445.5	6,704.7	4.0
Financial liabilities held for trading	107.0	100.0	102.2	2.2
Derivatives	60.5	63.7	64.2	0.9
Short positions	27.7	28.5	32.2	12.7
Deposits	7.3	2.5	1.3	-48.2
Debt securities issued	11.4	5.3	4.5	-14.6
Other financial liabilities	0.0	0.0	0.0	N/A
Financial liabilities designated at fair value through profit or loss	3.6	10.7	28.0	161.2
Deposits	2.0	1.2	1.9	56.1
Debt securities issued	1.6	9.5	26.1	175.0
Financial liabilities measured at amortised cost	5,200.3	6,234.3	6,482.9	4.0
Deposits measured at amortised cost	4,504.2	5,439.6	5,686.4	4.5
Debt securities issued and other liabilities	696.1	794.7	796.5	0.2
Derivatives – hedge accounting	26.8	32.3	33.5	3.6
Fair value changes	7.2	-7.8	-5.7	-27.8
Provisions	12.3	12.7	14.8	15.9
Tax liabilities	7.0	2.9	2.7	-7.6
Other liabilities	55.5	60.4	46.2	-23.5
Liabilities included in disposal groups classified as held for sale	0.0	0.0	0.0	N/A
Equity, total	540.8	556.4	576.3	3.6
Capital	98.2	99.8	100.9	1.0
Share premium	62.6	63.4	63.8	0.5
Retained earnings	213.1	239.3	251.8	5.2
Other reserves	50.7	55.4	62.3	12.4
Profit or loss attributable to owners of the parent	73.9	75.4	81.4	8.0
Other equity	42.3	23.0	16.2	-29.5

A high share of deposits measured at amortised cost remained a characteristic feature of the structure of domestic banking sector liabilities in 2018. Such deposits grew by CZK 246.8 billion year on year to CZK 5,686.4 billion, corresponding to a 78.1% share of total liabilities. Other financial liabilities measured at amortised cost,[102] consisting mainly of debt securities issued, went up by CZK 1.8 billion year on year to CZK 796.5 billion, or 10.9% of the sector's balance sheet total. The third-largest component of liabilities was equity with a share of 7.9%. Financial liabilities held for trading, liabilities

CHART B.II.11

STRUCTURE OF BANKING SECTOR LIABILITIES
(in %; as of end of period)



102 Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and, in the case of financial assets, minus any reduction for impairment or uncollectibility.

Chart B.II.12

DEPOSITS OF BANKING SECTOR
(in CZK billions; as of end of period)

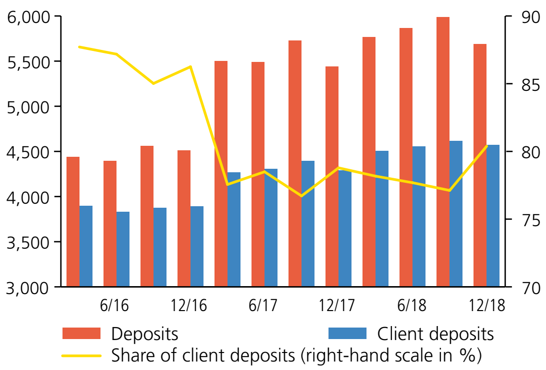


Chart B.II.13

DEPOSITS BY ECONOMIC SECTOR
(in %; as of end of period)

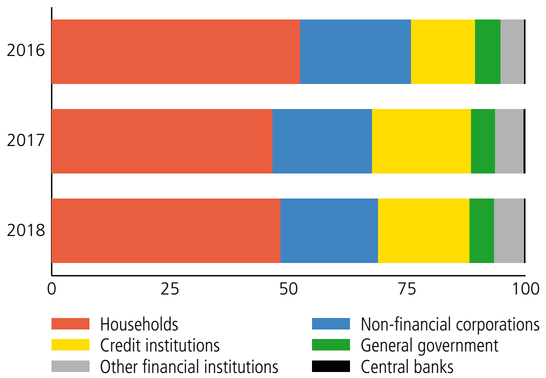


Table B.II.9

CLIENT DEPOSITS OF BANKING SECTOR
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
CLIENT DEPOSITS, TOTAL	3,892.9	4,288.5	4,573.7	6.6
General government	246.5	278.3	292.9	5.2
Deposits of other entities and not broken down by sector	3,646.4	4,010.2	4,280.8	6.7
Deposits of other financial institutions	224.1	330.5	359.6	8.8
Deposits of non-financial corporations	1,055.4	1,141.1	1,171.6	2.7
Deposits of households	2,367.0	2,538.6	2,749.6	8.3
Current accounts	1,588.6	1,772.7	1,950.9	10.1
Time deposits	285.9	282.2	326.4	15.7
Deposits redeemable at notice	492.5	483.7	472.3	-2.4

designated at fair value and other liabilities accounted for the remaining 3.1% share of overall liabilities. (See Chart B.II.11)

Client deposits, i.e. the bank deposits of general government, households, non-financial corporations and other financial institutions, accounted for the biggest share of the sector's total deposits. At the end of 2018, client deposits totalled CZK 4,573.7 billion and thus accounted for 80.4% of total deposits, up by 1.6 percentage points on a year earlier. Client deposits recorded growth of CZK 285.2 billion, or 6.6%, compared with the end of 2017. The share of deposits of other credit institutions in total deposits dropped by 1.6 percentage points year on year, to 19.3%. These deposits fell by CZK 38.8 billion during the year to CZK 1,098 billion. Deposits of central banks of CZK 17.9 billion accounted for the remaining share (0.3%). (See Charts B.II.12 and B.II.13)

The main component of equity in 2018 was retained earnings (43.7%), followed by capital (17.5%) and profit for the current accounting period (14.1%). The structure of equity saw no major changes compared with the previous year. (See Table B.II.8)

At the end of 2018, off-balance sheet liabilities, which consist primarily of financial guarantees and loan commitments received, where down by 6.1% year on year to CZK 319.8 billion. Off-balance sheet liabilities thus corresponded to 4.4% of the sector's balance sheet total in terms of size.

2.3.5 Deposits of bank clients and their structure

Client deposits increased by 6.6% year on year. This represented a slower pace of growth than in the previous period. Almost two-thirds of client deposits consisted of household deposits, which amounted to CZK 2,749.6 billion, up by 8.3% year on year. Within household deposits, the biggest year-on-year increases were recorded for time deposits (a rise of 15.7% to CZK 326.4 billion) and current account deposits (an increase of 10.1% to CZK 1,950.9 billion). By contrast, there was a continued downward trend in household deposits redeemable at notice, which fell by 2.4% year on year. (See Table B.II.9)

The growth in household deposits took place in an environment of rising interest rates on new deposit products.[103] While these interest rates on deposits on current and savings accounts and deposits redeemable at notice increased only negligibly (all by 0.03 percentage point), the average interest rate on time deposits increased more markedly – by 0.69 percentage point to 1.36% p.a. (See Chart B.II.14).

103 Data from the monetary statistics reporting statements submitted by banks were used as the source for processing data on interest rates on new deposits.

Another significant component of client deposits, accounting for roughly one-quarter of the total (25.6%), consisted of deposits of non-financial corporations, which increased by 8.3% year on year to CZK 1,171.6 billion. At the end of the period under review, deposits of other financial institutions and deposits of general government were up by 8.8% and 5.2% respectively year on year, and their shares in the client deposits segment were thus 7.9% and 6.4% respectively. (See Table B.II.9)

2.3.6 Liquidity situation of the banking sector

The liquidity position of the banking sector remained very good in 2018. Quick assets went down by 3.1% year on year to CZK 2,998.5 billion, but their share in the banking sector's total assets reached a solid 41.2%. Turning to the structure of quick assets, loans to and receivables from central banks remained the largest component (CZK 2,135.4 billion). Their share in the sector's quick assets increased by 13 percentage points to 71.2%. Debt securities of general government in banks' assets (CZK 592.5 billion) accounted for 19.8% of quick assets. The 9% residual share of quick assets was made up of banks' cash, including cash balances at central banks and other short-term deposits. (See Chart B.II.15)

At the end of 2018, foreign bank branches recorded the highest share of quick assets in assets (53.2%, i.e. 12 percentage points above the sector average). Above-average shares were also recorded by large banks (42.9%, i.e. 1.7 percentage points above the average) and small banks (48.7%, i.e. 7.5 percentage points above the average). By contrast, medium-sized banks and building societies had below-average shares of quick assets in assets (32.9%, i.e. 8.2 percentage points below the average, and 18%, i.e. 23.1 percentage points below the average, respectively). The relatively low level of this ratio for building societies was due to their business model and asset structure. (See Chart B.II.16)

An excess of aggregate client deposits over total client loans has long been a positive characteristic feature of the Czech banking sector's liquidity. The ratio of client deposits to client loans rose by 3.4 percentage points quarter on quarter in 2018 Q1, but gradually fell in the following quarters. This was reflected in a full-year year-on-year drop of 0.7 percentage point to a still relatively high 134.4%. The change corresponded to higher growth in client loans (7.2% year on year) than client deposits (6.6%). (See Chart B.II.17)

CHART B.II.14

INTEREST RATES ON NEW DEPOSITS
(individuals; in %)

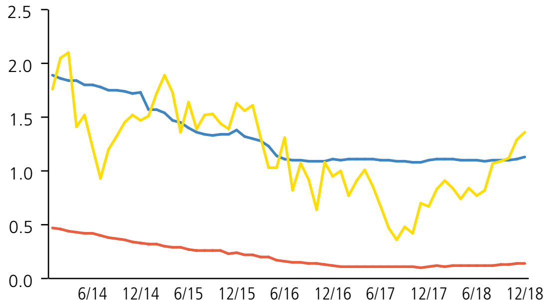


CHART B.II.15

QUICK ASSETS IN 2018
(in CZK billions; in %)

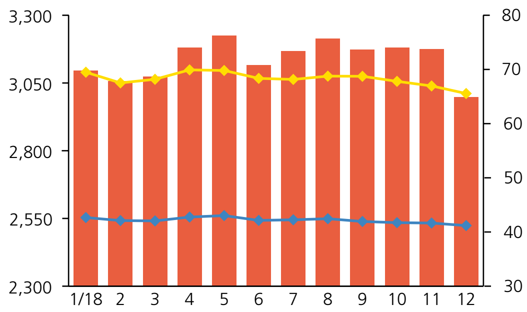


CHART B.II.16

LIQUIDITY RATIOS OF BANK GROUPS
(in %; as of 31 December 2018)

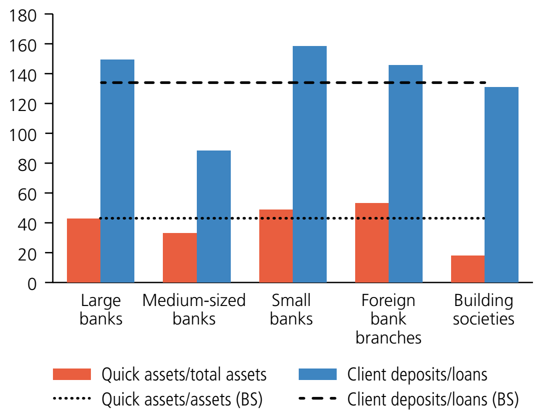


CHART B.II.17

LIQUIDITY RATIOS OF BANKING SECTOR
(in %)

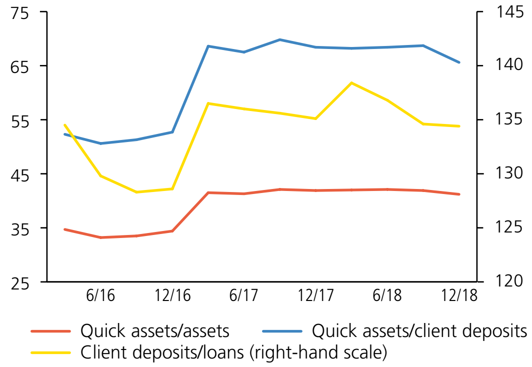


TABLE B.II.10

LIQUIDITY OF BANKING SECTOR
(in %/CZK billions; as of end of period)

	2016	2017	2018
QUICK ASSETS, TOTAL (CZK billions)	2,050.1	2,931.4	2,998.5
POSITION			
Position on interbank market (CZK billions)	-418.5	-914.1	-897.0
Ratio of position on interbank market to balance sheet total of BS (%)	-7.0	-13.1	-12.3
OTHER LIQUIDITY RATIOS			
Loan coverage by primary funds (%)	128.6	135.1	134.4
Quick assets/assets (%)	34.4	41.9	41.2

The sector's good liquidity position was confirmed by a relatively high liquidity coverage ratio,[104] which rose by 7.1 percentage points year on year to 189.3% at the end of 2018.

The position on the interbank market[105] was minus CZK 897.0 billion. This represented a year-on-year decrease in deficit of CZK 17.1 billion. The "internal" exposure to the banking sector thus decreased moderately. Despite this, it remained relatively high. (See Table B.II.10)

104 The liquidity coverage ratio (LCR) as defined in Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

105 The position on the interbank market is defined as the difference between the receivables of the banking sector from credit institutions and the deposits of credit institutions recorded under banking sector liabilities.

2.3.7 Selected data on the banking sector vis-à-vis non-residents[106]

Assets denominated in foreign currencies in the balance sheets of domestic banks amounted to CZK 1,098.4 billion, accounting for almost 15% of the sector's total assets. Foreign currency liabilities stood at CZK 1,465.7 billion, representing almost 20% of the sector's balance sheet total. (See Chart B.II.18)

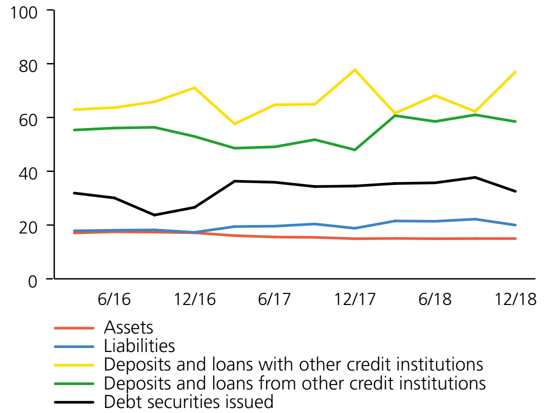
Total non-resident assets declined slightly year on year to CZK 736.9 billion. Client loans and receivables were again their largest component at the end of 2018. Their significant share strengthened to 44.1%, up by 4.3 percentage points on a year earlier. Aggregate non-resident liabilities, which totalled CZK 1,889 billion, considerably exceeded non-residents' assets. Loans and deposits received from credit institutions accounted for the largest share (57.7%) of total non-resident liabilities.

Turning to the territorial structure of the banking sector, 88.5% of total assets were located in the Czech Republic at the end of 2018. As regards foreign business activities, exposures in EU countries strongly predominated (with an 86.6% share in foreign asset exposures). The territorial structure of the receivables of the domestic banking sector also corresponded to the sector's dominant orientation on the domestic market, as only 17.8% of total receivables were claims on entities abroad. Deposits from abroad accounted for 24.8% of total deposits.

CHART B.II.18

SHARES OF FOREIGN CURRENCIES

(in %; shares in relevant balance sheet aggregates for all currencies)

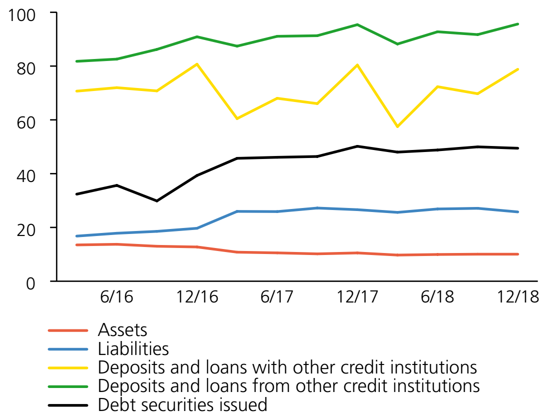


Note: Shares relative to the total volumes of the relevant items for all currencies, i.e. the share of foreign currency assets/liabilities in the sector's balance sheet total, the share of foreign currency deposits and loans with other credit institutions in total deposits and loans with other credit institutions, and so on.

CHART B.II.19

NON-RESIDENT TRANSACTIONS

(in %; shares in relevant balance sheet aggregates without resident/non-resident distinction)



Note: Shares relative to the total volumes of the relevant items without resident/non-resident distinction, i.e. the share of non-resident assets/liabilities in the sector's balance sheet total, the share of non-resident deposits and loans with other credit institutions in total deposits and loans with other credit institutions, and so on.

106 Data from the monetary statistics reporting statements submitted by banks were used to prepare this section.

2.4 BANKING SECTOR ASSET QUALITY

Non-performing client exposures[107] continued to show a downward trend in 2018, as did their share in total client exposures.[108] The total volume of non-performing client exposures (at gross value, i.e. excluding allowances) dropped by CZK 28.1 billion, i.e. by about one-fifth, to CZK 116.6 billion. The share of non-performing client exposures in total client exposures thus fell by 1 percentage point year on year to 3.4% at the end of 2018. (See Table B.II.11)

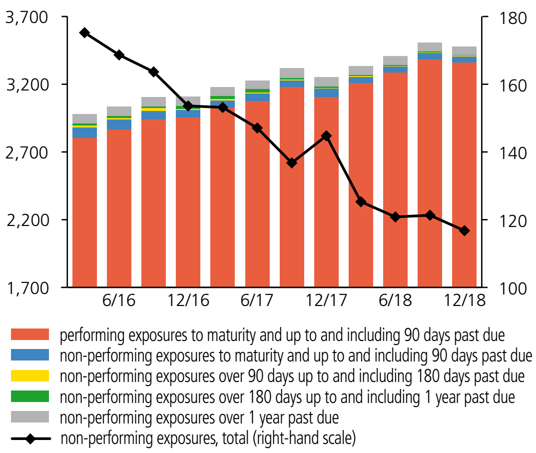
TABLE B.II.11

CLASSIFICATION OF BANKS' RECEIVABLES FROM CLIENTS
(in CZK billions; as of end of period)

	2016	2017	2018	Change 2018/2017 (in %)
RECEIVABLES FROM CLIENTS (total gross)	3,109.7	3,251.1	3,478.3	7.0
Performing exposures	2,956.2	3,106.4	3,361.7	8.2
to maturity and up to and including 30 days past due	2,948.9	3,100.7	3,354.4	8.2
over 30 days up to and including 90 days	7.3	5.8	7.3	26.5
Non-performing exposures	153.5	144.7	116.6	-19.4
to maturity and up to and including 90 days past due	54.6	62.0	44.9	-27.6
over 90 days up to and including 180 days	9.1	6.3	6.2	-1.8
over 180 days up to and including 1 year	22.3	8.0	5.4	-31.9
over 1 year	67.4	68.4	60.1	-12.1
Provisions for client receivables, total	85.3	73.5	74.9	1.9
Performing exposures	10.1	9.2	14.5	56.8
Non-performing exposures	75.3	64.2	60.4	-6.0
Coverage of performing exposures	0.3%	0.3%	0.4%	N/A
Coverage of non-performing exposures	49.0%	44.4%	51.8%	N/A
Share of non-performing exposures in total exposures	4.9%	4.4%	3.4%	N/A

CHART B.II.20

CLASSIFICATION OF RECEIVABLES FROM CLIENTS
(in CZK billions; as of end of period)



The downward trend in the ratio of non-performing exposures to total exposures was recorded across all sectors. The ratio dropped by 2.1 percentage points to 5.6% for non-financial corporations, 0.4 percentage point to 2.2% for households, 0.3 percentage point to 0.6% for general government and 0.1 percentage point to 0.4% for other financial entities. (See Chart B.II.21)

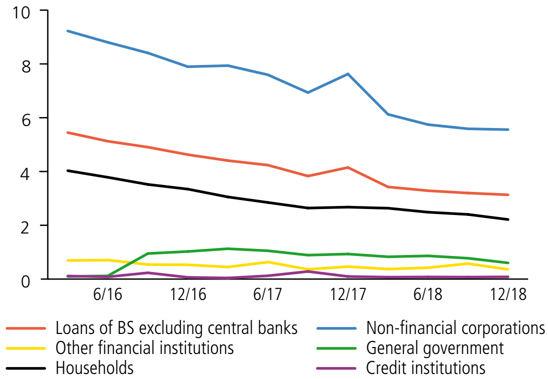
107 The classification of receivables changed as of 1 January 2018. The data given for previous years have been brought into accordance with the new classification.

108 Almost all non-performing exposures (99.8%) were client receivables.

The cumulative provisions created to cover any losses arising from client receivables amounted to CZK 74.9 billion, a year-on-year rise of 1.9%. The coverage of non-performing client exposures by provisions increased by 7.4 percentage points to 51.8% at the end of 2018. The highest coverage ratios were recorded for loans in the household sector (56%) and the non-financial corporations sector (50.3%). The ratio was 23.8% for loans to other financial institutions and 15% for loans to general government.

CHART B.II.21

NON-PERFORMING LOANS
(in % of loans granted by BS)



2.5 BANKING SECTOR PERFORMANCE AND PROFITABILITY

2.5.1 Financial and operating profit

The banking sector turned in a financial and operating profit of CZK 190.5 billion at the end of 2018, a rise of 6.3% on a year earlier. A significant contributor to this growth was interest profit, which grew by 15.8% to CZK 129.8 billion compared with 2017. Profit from fees and commissions recorded growth of 5% to CZK 33.6 billion in 2018. By contrast, profit from financial revaluation of assets and liabilities[109] fell by about one-third to CZK 14.7 billion. There was also a fall in income on dividends from ownership interests, which amounted to CZK 9.2 billion. (See Table B.II.12 and Chart B.II.22)

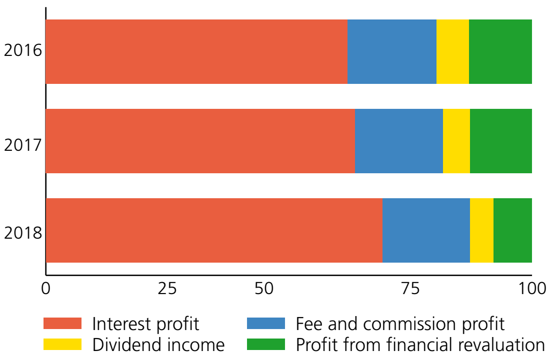
TABLE B.II.12

BANKING SECTOR PROFITS
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
Financial and operating profit	180.2	179.2	190.5	6.3
Financial profit	177.0	176.3	187.3	6.2
of which:				
Interest profit	109.9	112.1	129.8	15.8
Interest income	143.4	146.7	179.2	22.2
Interest expenses	33.6	34.6	49.4	42.8
Dividend income	11.9	9.7	9.2	-5.7
Fee and commission profit	32.4	32.1	33.6	5.0
Fee and commission income	44.8	44.6	46.1	3.4
Fee and commission expenses	12.4	12.5	12.4	-0.7
Administrative expenses	71.7	73.6	76.8	4.4
Staff expenses	36.5	38.3	41.1	7.2
Other administrative expenses	35.2	35.3	35.7	1.3
Depreciation	7.0	7.4	8.1	10.2
Provisions	2.8	2.6	2.0	-21.6
Impairment	11.8	6.5	5.7	-11.5
Profit before tax	87.9	90.3	98.0	8.5
Tax expense	14.4	15.0	16.6	10.4
PROFIT AFTER TAX (current year)	73.9	75.4	81.4	8.0

CHART B.II.22

DECOMPOSITION OF FINANCIAL PROFIT
(in %; in given period)



As regards the decomposition of financial profit into its components, the biggest contributor was interest profit. Its share in the sector's total financial profit rose by 5.7 percentage points to 69.3%. The share of profit from fees and commissions in total financial profit recorded a slight year-on-year decline to 18%, while profit from financial revaluation contributed with a 7.8% share (down by 4.9 percentage points). The rest of the financial profit consisted of dividend income with a 4.9% share (down by 0.6 percentage point). (See Chart B.II.22)

109 The part of profit consisting mainly of gains or losses on financial assets and liabilities held for trading, hedging transactions and valuation changes.

The net interest rate margin[110] of the banking sector as a whole declined slightly year on year to 1.91% at the end of 2018. Modest year-on-year falls were recorded by medium-sized banks (to 2.17%), foreign bank branches (to 1.64%) and building societies (to 1.52%). By contrast, the net interest rate margin of small banks increased slightly year on year (to 2.01%). The net interest rate margin of large banks remained stable in year-on-year terms (1.89%). (See Chart B.II.23)

2.5.2 Administrative expenses and impairment

Administrative expenses, which are closely linked with the efficiency with which banks manage their current operating activities, amounted to CZK 76.8 billion at the end of 2018, an increase of 4.4% on a year earlier. Personnel expenses grew faster (by 7.2%) to CZK 41.1 billion, while other administrative expenses recorded a year-on-year rise of only 1.3% to CZK 35.7 billion. The degree of use of financial and operating profit to cover administrative expenses remained stable at 40.3% in 2018. (See Table B.II.12 and Chart B.II.24)

Asset impairment losses dropped by 11.5% year on year to CZK 5.7 billion. Corporate income tax expenses increased by 10.4% year on year to CZK 16.6 billion. (See Table B.II.12)

2.5.3 Banking sector net profit

The total after-tax profit of the banking sector amounted to CZK 81.4 billion in 2018, a rise of 8% on a year earlier. (See Chart B.II.25)

This result was due most of all to large banks, which generated net profit of CZK 56.4 billion. Despite recording a 4.3% year-on-year increase in net profit, large banks saw their share in the banking sector's total profit drop slightly to 69.3%. The second-highest share (17%) was recorded by medium-sized banks, whose net profit grew by CZK 1.6 billion year on year to CZK 13.9 billion. The net profit of small banks in 2018 amounted to CZK 4.1 billion and their share in the aggregate profit rose to 5.1%. Foreign bank branches made a profit of CZK 3.7 billion and their share in the sector's profit fell to 4.6%. Building societies were the only category in the sector to record a slight year-on-year drop in net profit (a CZK 3.3 billion profit with a 4% share). (See Chart B.II.26)

CHART B.II.23

NET INTEREST MARGIN (ANNUAL)
(in %)

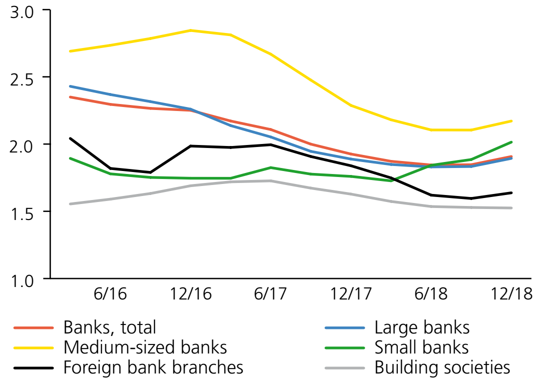


CHART B.II.24

STRUCTURE OF INCOME AND EXPENSES
(in % of assets)

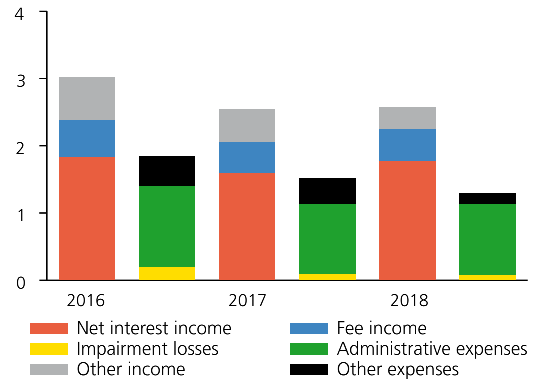
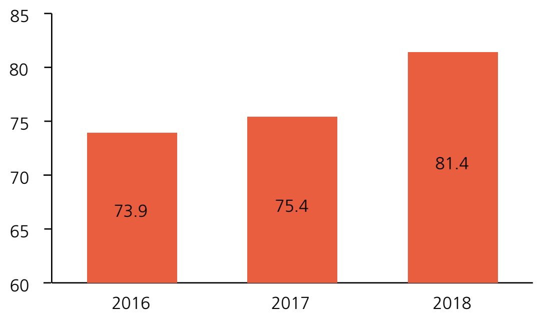


CHART B.II.25

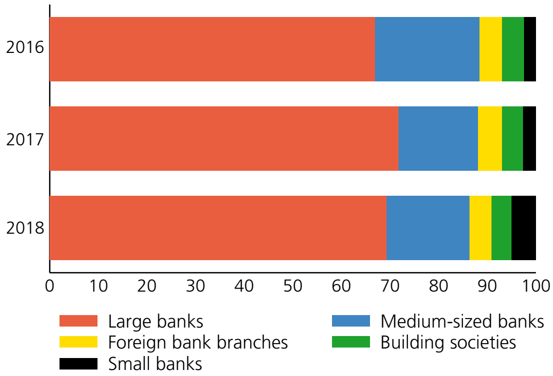
NET PROFIT OF BANKING SECTOR
(in CZK billions; in given period)



110 The net interest rate margin is defined as the ratio of interest profit to interest-earning financial assets.

Chart B.II.26

SHARES OF BANK GROUPS IN PROFIT
(in %; banks with licences as of end of period)



The vast majority of banks generated net profits in 2018. Five foreign bank branches, accounting for 0.35% of the banking sector's total assets, recorded a loss.

2.5.4 Banking sector profitability and efficiency

The return on assets (RoA) of the banking sector remained stable at 1.1%. (see Chart B.II.27)

Some differences could be observed between the groups of banks. Large and medium-sized banks showed the highest RoAs of 1.22% and 1.16% respectively. The RoA of small banks rose by 0.35 percentage points year on year to 0.75%, while those of foreign bank branches and building societies remained stable at 0.58% and 0.82% respectively. (See Chart B.II.28)

The return on equity (RoE)[111] of the banking sector was 17.5% at the end of 2018, a year-on-year rise of 0.5 percentage point. RoE increased across all categories of banks. As usual, large banks recorded the highest RoE, with a figure of 19%, up by a slight 0.1 percentage point year on year. The RoE of medium-sized banks rose by 0.6 percentage point year on year to 12.8%, while that of small banks showed stronger year-on-year growth of 4.7 percentage points to 10.6%. The RoE of building societies went up by 0.4 percentage point to 14.8%. (See Chart B.II.29)

The ratio of administrative expenses to assets of the banking sector, which to a limited extent expresses the efficiency of the sector, recorded a slight year-on-year improvement of 0.02 percentage point to 1.04%. The ratio of financial and operating profit to total assets for the sector also remained stable in year-on-year terms at 2.58%.

111 RoE is defined as the ratio of net profit to Tier 1 capital. Tier 1 is the highest quality and, for banks in the Czech Republic, also the most significant part of regulatory capital. It consists mostly of registered capital, retained earnings and mandatory reserve funds.

CHART B.II.27

BANKING SECTOR PROFITABILITY AND EFFICIENCY INDICATORS
(in %)

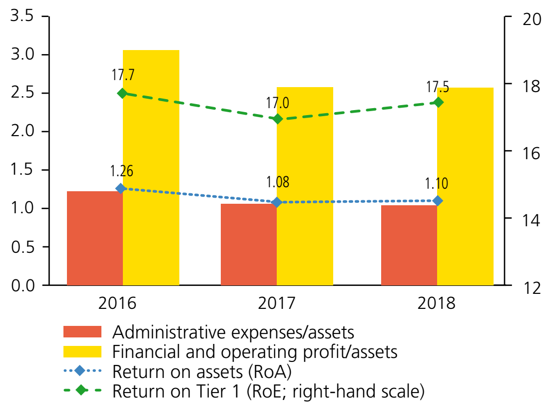


CHART B.II.28

RETURN ON ASSETS (ROA)
(in %; bank groups)

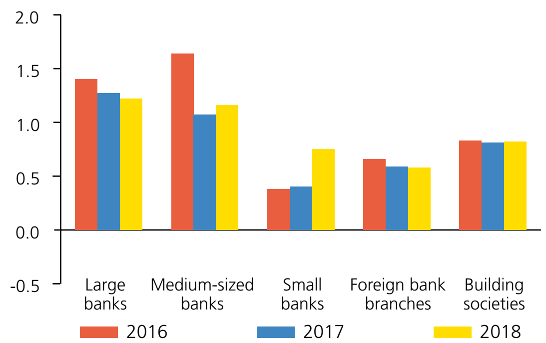


CHART B.II.29

RETURN ON TIER 1 (RoE)
(in %; bank groups)

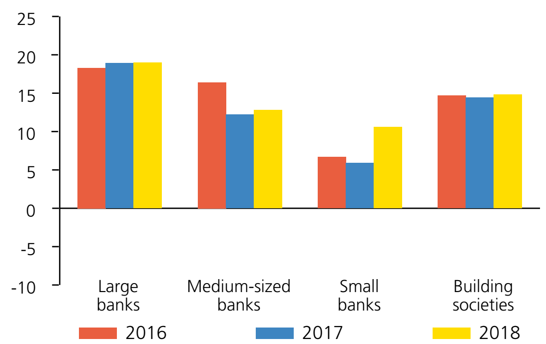


Table B.II.13

REGULATORY CAPITAL OF BANKING SECTOR
(in CZK billions)

	2016	2017	2018	Change 2018/2017 (in %)
CAPITAL, TOTAL	440.7	471.8	493.5	4.6
Tier 1 (T1) capital	427.7	457.7	480.2	4.9
Common Equity T1 (CET1)	415.0	444.4	466.9	5.1
Additional T1 (AT1)	12.6	13.3	13.3	0.0
Tier 2 (T2) capital	13.0	14.0	13.3	-5.2

Chart B.II.30

CAPITAL AND CAPITAL RATIOS
(in CZK billions)

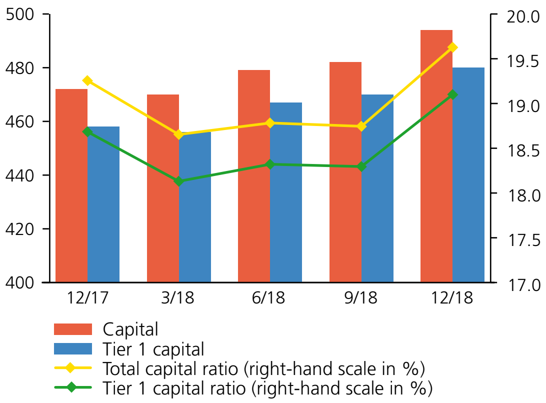
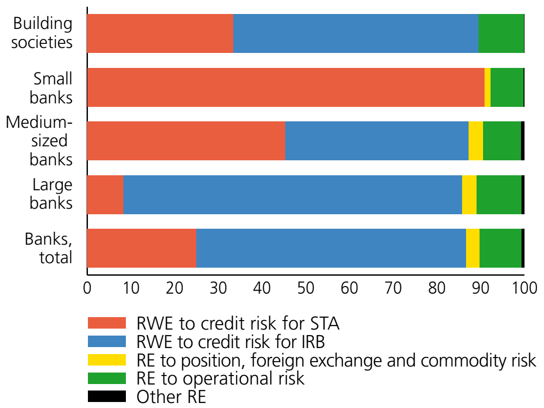


Chart B.II.31

RISK EXPOSURE STRUCTURE
(in %; as of 31 December 2018)



2.6 CAPITALISATION OF THE BANKING SECTOR[112]

The regulatory capital of the Czech banking sector[113] rose by CZK 21.8 billion to CZK 493.5 billion in 2018. The total capital ratio[114] of the domestic banking sector increased by 0.3 percentage point year on year to 19.6%. The capital ratio of large banks grew by 0.7 percentage point to 19.4% and that of small banks by 0.8 percentage point to 19.8%, while the ratio for medium-sized banks fell by 0.7 percentage point to 20.6%. The total capital ratio of building societies dropped by 1 percentage point to 17.8%.

In 2018, the vast majority of the regulatory capital of domestic banks (97.3%) again consisted of high-quality Tier 1 capital, which increased by CZK 22.5 billion (or 4.9%) year on year to CZK 480.2 billion. The Tier 1 capital ratio rose by 0.4 percentage point year on year to 19.1%. Given the dominant share of this capital in the total regulatory capital, it strongly correlates with the total capital ratio. (See Table B.II.13 and Chart B.II.30)

The use of Tier 2 capital, which consists primarily of subordinated debt, has long been low. Tier 2 capital amounted to only CZK 13.3 billion at the end of 2018, accounting for 2.7% of the total regulatory capital.

The total risk exposures (RE) of the Czech banking sector rose by CZK 64.1 billion (or 2.6%) to CZK 2,514.4 billion in 2018. The RE structure of the sector was consistent with the conservative business model of banks, its largest component being risk-weighted exposures (RWE) to credit risk. These exposures amounted to CZK 2,180.6 billion at the end of 2018. They accounted for 86.7% of total RE, a year-on-year increase of 1.8 percentage point. (See Chart B.II.31)

Banks can calculate RWE to credit risk by applying either a standardised approach (STA) or more advanced methods using their own internal risk-rating models (IRB). The IRB approach was dominant in the domestic banking environment, as it was used to calculate 71.2% of RWE to credit risk.

Risk exposures to operational risk fell by CZK 19.2 billion year on year to CZK 243.6 billion. Their share in total risk exposures declined by 1 percentage point to 9.7% in 2018.

112 The capitalisation of the banking sector and the credit union sector reflects the methodology used for prudential policy indicators, which is based on the currently applicable rules governing the conduct of credit institutions. These rules have been in force since 2014, when Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) came into effect.

113 In this case, foreign bank branches operating in the Czech Republic are excluded from the Czech banking sector, as the risks to their business activities are covered by the regulatory capital of their head offices. The assessment of capital adequacy falls to the competent foreign supervisory authority.

114 The capital ratio is defined as the ratio of the relevant capital to total risk exposures in per cent.

Risk exposures to position, foreign exchange and commodity risks also fell in year-on-year terms, by CZK 15.4 billion to CZK 75.8 billion. This represents a year-on-year drop in their share in total risk exposures of 0.7 percentage point to 3%.

The domestic banking sector is comfortably compliant with the capital requirements as defined by CRD IV/CRR rules.[115] At the same time, all banks exceeded the prescribed minimum total capital ratio of 8% and Tier 1 capital ratio of 6%.

The leverage ratio of the sector as a whole, as expressed by the ratio of Tier 1 capital to total assets, increased by 0.2 percentage point to 6.7%, while leverage defined as the ratio of Tier 1 capital to total loans and receivables rose by 1.8 percentage points to 8.4%.

115 The overall capital requirement consists of the regulatory minimum capital (Pillar 1), the capital requirement set under the supervisory review and evaluation process (Pillar 2) and the requirements for capital buffers.

2.7 THE CREDIT UNION SECTOR[116]

2.7.1 Structure of the credit union sector

As in the previous year, the credit union sector comprised ten entities as of the end of 2018. However, their number of members declined by almost one-third. The number of credit union employees rose to 358 despite this drop. This was partly due to the effort of Moravský peněžní ústav to obtain a banking licence, which it was granted as of 1 January 2019. (See Table B.II.14)

The credit union sector accounted for 0.28% of the total assets of credit institutions (i.e. banks and credit unions) at the end of 2018. This minimal share dropped by 0.13 percentage point year on year, reflecting a rise in banking sector assets and a drop in credit union assets.

The Czech credit union sector was highly concentrated. The three largest credit unions accounted for almost four-fifths and the five largest entities for 94.4% of the sector's total assets. (See Chart B.II.32)

2.7.2 Activities of the credit union sector

The total assets of the credit union sector amounted to CZK 20.2 billion at the end of 2018, down by CZK 2.8 billion (or 12.6%) year on year. Most credit unions recorded a decrease in total assets, the only exceptions being three which recorded a slight increase. (See Table B.II.15)

Table B.II.14

NUMBER OF CREDIT UNIONS
(as of end of period)

	2016	2017	2018
CREDIT UNIONS, TOTAL	11	10	10
Number of members of CUs	51,586	30,850	21,835
Number of new memberships	3,851	2,374	1,340
Number of memberships terminated	2,279	2,569	9,843
Number of employees of CUs (in CZ)[i]	483	332	358

i) Registered number of employees.

Chart B.II.32

CONCENTRATION OF CREDIT UNION SECTOR
(shares in %; as of 31 December 2018)

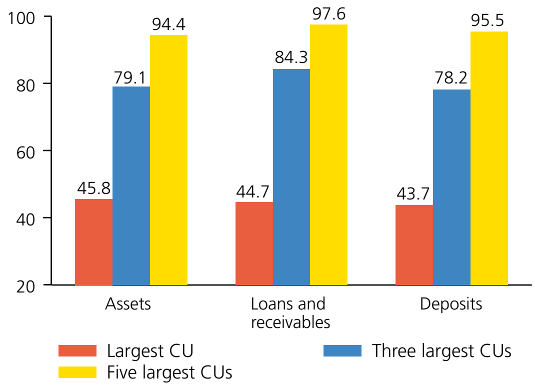


Table B.II.15

CREDIT UNION SECTOR ASSETS
(in CZK millions; as of end of period)

	2016	2017	2018	Structure 2018 (in %)
TOTAL NET ASSETS	34,185.0	23,080.8	20,240.8	100.0
Cash, cash balances at central banks and other demand deposits	8,489.4	6,698.5	3,373.8	16.7
Financial assets held for trading	436.9	398.1	398.9	2.0
Financial assets designated at fair value through profit or loss	1,184.7	0.0	0.0	0.0
Financial assets at fair value through OCI	1.1	1.1	1.1	0.0
Financial assets at amortised cost	22,455.3	14,836.1	14,679.2	72.5
Tangible and intangible assets	790.9	639.2	650.2	3.2
Tax assets	83.0	36.1	73.0	0.4
Other assets	743.8	471.6	1,064.6	5.3

116 End-2018 data on the credit union sector valid as of 13 May 2019. Internal audits are being conducted at individual credit unions, so the figures presented in this section may differ from the CNB's updated statistics.

Loans and other receivables (at amortised cost) were the largest asset item at the end of 2018, amounting to CZK 14.7 billion. Their share in credit unions' total assets rose by 8.2 percentage points year on year to 72.5%. Cash items, including credit unions' own demand deposits, totalled CZK 3.4 billion and were the second largest asset item (16.7%), despite dropping by almost one-half year on year.

In terms of structure, non-financial corporations were the largest recipient of loans[117] from credit unions. They accounted for 76% of the total loans of credit unions, i.e. 13 percentage points less than a year earlier. Loans to non-financial corporations thus recorded a slight year-on-year decline in volume. The main reason for the drop in their share was a rise in loans to and receivables from central banks. These assets grew from zero at the end of 2017 to CZK 2.5 billion at the end of 2018. With a 16.9% share in the sector's total loans, they made up the second-largest category of credit unions' total lending.[118] (See Chart B.II.33)

In line with the nature of credit unions' business, deposits were again a key item of liabilities in 2018. At CZK 16 billion, they accounted for 78.8% of the sector's total assets. The deposits of credit unions declined by 16.3% year on year. (See Chart B.II.34)

From the sectoral perspective, household deposits were the biggest source of aggregate deposits. They fell by CZK 2.2 billion year on year to CZK 11.9 billion. The share of household deposits in the sector's total deposits stood at 74.5% at the end of 2018. Non-financial corporations were the second-largest depositors of credit unions. Their deposits of CZK 3.6 billion accounted for 22.4% of total deposits. Deposits of other financial institutions (CZK 457.7 million) and general government (CZK 17.6 million) made up the rest. The deposits of credit institutions with credit unions amounted to practically zero. They dropped by almost CZK 197 million year on year.

CHART B.II.33

STRUCTURE OF LOANS PROVIDED BY CREDIT UNION SECTOR
(in %; as of end of period)

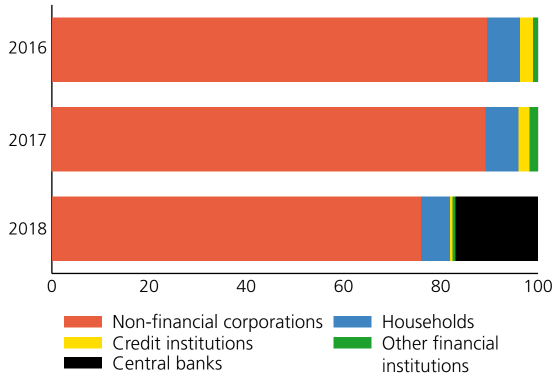
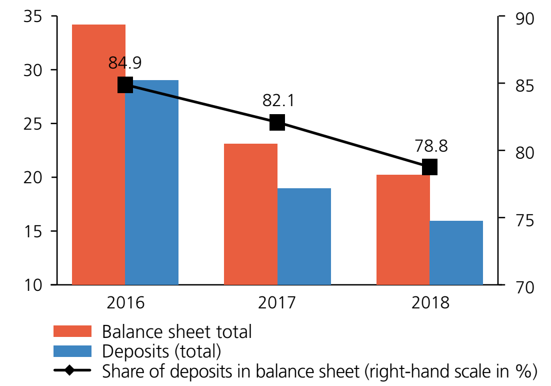


CHART B.II.34

DEPOSITS IN CREDIT UNION BALANCE SHEET
(as of end of period; in CZK billions; in %)



117 In this context, the term "loans" means all loans and receivables reported in credit unions' balance sheets at amortised cost.

118 The growth in the category of loans to and receivables from central banks was due to the involvement of some credit unions in trading with the Czech National Bank in the form of reverse repo operations (from the perspective of credit unions) in a context of higher CNB interest rates combined with limited alternative ways of making returns on liquidity.

TABLE B.II.16

CREDIT UNION SECTOR LIABILITIES
(in CZK millions; as of end of period)

	2016	2017	2018	Structure 2018 (in %)
LIABILITIES AND EQUITY	34,185.0	23,080.8	20,240.8	100.0
Liabilities, total	29,408.2	19,479.1	16,584.6	81.9
Financial liabilities held for trading	161.8	0.0	0.3	0.0
Financial liabilities measured at amortised cost	29,044.2	19,107.4	16,000.6	79.1
Derivatives – hedge accounting	0.0	0.0	0.0	0.0
Provisions	13.4	12.3	9.8	0.0
Tax liabilities	19.4	8.8	8.0	0.0
Share capital repayable on demand	0.0	0.0	0.0	0.0
Other liabilities	169.4	222.3	561.6	2.8
Equity, total	4,776.8	3,601.6	3,656.2	18.1
Capital	4,650.0	3,563.7	3,765.4	18.6
Accumulated other comprehensive income	0.0	0.0	0.0	0.0
Retained earnings	8.9	3.4	-251.9	-1.2
Other reserves	148.1	115.0	143.1	0.7
Profit or loss	-30.3	-80.4	0.8	0.0

TABLE B.II.17

CREDIT UNION SECTOR OFF-BALANCE SHEET
(in CZK millions; as of end of period)

	2016	2017	2018
Loan commitments given	1,000.3	325.1	278.2
Financial guarantees given	64.1	21.4	76.5
Other commitments given	9.8	10.3	11.6
Loan commitments received	0.0	0.0	0.0
Financial guarantees received	531.7	521.4	583.0
Other commitments received	0.6	0.0	0.0

The off-balance sheet of credit unions included credit commitments, financial guarantees and other commitments provided (and received). Financial guarantees received were the largest off-balance sheet item. They recorded a year-on-year increase of 11.8%. (See Table B.II.17)

2.7.3 Profits of the credit union sector

Credit unions generated a total net profit of CZK 0.8 million in 2018. In particular, a year-on-year rise in interest profit of 85.1% contributed to the positive financial result. The net profit was also positively affected by profit from other financial activities.

TABLE B.II.18

CREDIT UNION SECTOR PROFITS
(as of end of period; in CZK millions)

	2016	2017	2018
FINANCIAL PROFIT	820.1	327.9	500.5
of which:			
Interest profit	831.5	288.8	534.6
Fee and commission profit	52.5	46.0	39.0
Gains on financial assets not measured at fair value through profit or loss	-135.6	-70.3	-160.8
Gains on financial assets held for trading	6.3	41.3	0.2
Gains on financial assets designated at fair value through profit or loss	14.5	0.0	0.0
Gains from hedge accounting	-2.1	0.0	0.0
Gains from other activities	52.9	22.1	87.5
ADMINISTRATIVE EXPENSES	715.4	384.2	599.2
DEPRECIATION AND PROVISIONS	43.7	16.0	40.8
IMPAIRMENT	74.1	3.7	-100.5
GROSS PROFIT before tax	-13.0	-76.0	-39.0
Tax expense	17.3	4.4	-39.8
NET PROFIT	-30.3	-80.4	0.8

The administrative expenses of credit unions rose significantly – by more than one-half – compared with 2017, with both personnel expenses and other administrative expenses increasing. The financial result was also negatively affected by a higher loss on derecognition of financial assets and liabilities not reported in the profit and loss account in the reference period.[119] This loss ran to CZK 160.8 million at the end of 2018, more than double the 2017 figure.

The overall profit of credit unions was positively affected to a large extent by reversals[120] exceeding impairment losses. This component raised the profit figure by CZK 100.5 million.

Although the credit union sector recorded a pre-tax loss, its net profit was slightly positive due mainly to the incorporation of income tax revenue arising from the deferred tax receivables of one credit union linked with its conversion into a bank.[121] Six credit unions generated net profits, one had a zero profit and three reported net losses.

2.7.4 Asset quality of the credit union sector

The total receivables of credit unions[122] dropped by CZK 2.7 billion year on year to CZK 14.5 billion. Non-performing exposures accounted for 28.2% of total receivables, a year-on-year rise of 6.1 percentage points. Non-performing exposures also increased slightly year on year, by CZK 0.3 billion. Non-performing held-to-maturity and past-due exposures with maturities of up to and including 90 days were the biggest component of non-performing exposures at the end of 2018. They accounted for 52% of the sector's non-performing exposures. (See Table B.II.19)

Quick assets declined by almost CZK 854 million year on year to CZK 6.1 billion. However, their share in total assets was unchanged compared with the previous year at 30.1%. The ratio of deposits to loans also decreased in year-on-year terms in 2018 – by 19.4 percentage points to 108.4%. (See Table B.II.20)

Table B.II.19

CLASSIFICATION OF CREDIT UNION RECEIVABLES
(in CZK billions; as of end of period)

	2016	2017	2018	Change 2018/2017 (in %)
CREDIT UNION PORTFOLIO RECEIVABLES	25.3	17.2	14.5	-15.8
Performing exposures	16.1	13.4	10.4	-22.4
to maturity and up to and including 30 days past due	15.9	13.4	10.2	-23.6
over 30 days up to and including 90 days	0.2	0.0	0.2	2 396.6
Non-performing exposures	9.2	3.8	4.1	7.4
to maturity and up to and including 90 days past due	5.5	1.8	2.1	15.5
over 90 days up to and including 180 days	0.8	0.2	0.7	353.5
over 180 days up to and including 1 year	0.3	0.1	0.1	75.1
over 1 year up to and including 5 years	2.6	1.7	1.1	-36.5
over 5 years	0.0	0.0	0.0	N/A
Share of non-performing exposures in total exposures (in %)	36.3	22.1	28.2	N/A

Table B.II.20

CREDIT UNION LIQUIDITY RATIOS
(as of end of period; in CZK millions; in %)

	2016	2017	2018
Quick assets	8,851.0	6,944.0	6,090.5
Quick assets/assets	25.9	30.1	30.1
Deposits/loans	130.0	127.8	108.4

119 This is the negative difference between realised gains and realised losses reported by credit unions on securities and held-to-maturity receivables on their derecognition.

120 Reversal of provisions involves deducting income arising from the release of unneeded provisions and income arising from those previously written-off non-financial assets recorded in previous accounting periods and in the current year from impairment losses.

121 Moravský Peněžní Ústav – spořitelní družstvo converted into a bank on 1 January 2019.

122 The total receivables of credit unions do not include receivables from central banks.

TABLE B.II.21

CAPITAL STRUCTURE OF CREDIT UNION SECTOR
(as of end of period; in CZK millions; in %)

	2016	2017	2018
CAPITAL	4,632.0	3,451.2	3,559.4
Tier 1 (T1) capital	4,557.6	3,393.6	3,506.3
Tier 2 (T2) capital	74.4	57.6	53.2
T1 capital ratio	15.91	18.61	21.07
Surplus of T1 capital	2,838.4	2,299.2	2,507.6
Total capital ratio	15.91	18.61	21.07
Surplus of total capital	3,268.2	2,572.8	2,757.2

2.7.5 Capitalisation of the credit union sector

The capitalisation of credit unions improved in 2018, as their total regulatory capital rose by 3.1% to CZK 3.6 billion. With a share of 98.5%, high-quality Tier 1 capital remained the largest component of total regulatory capital. (See Table B.II.21)

Given the very high share of Tier 1 capital in total regulatory capital, both the total capital ratio and the Tier 1 capital ratio stood at 21.07% at the end of 2018. This represented a year-on-year rise of 2.46 percentage points. All credit unions were compliant with the required minimum regulatory capital ratios.[123]

123 The required minimum total capital ratio of 8% and the required minimum Tier 1 capital ratio of 6%.

3. THE INSURANCE MARKET

3.1 INSURANCE MARKET ENTITIES

As of the end of 2018, the Czech insurance market was made up of 26 domestic insurance undertakings, i.e. insurance undertakings having their registered office in the Czech Republic, and 20 branches of foreign insurance undertakings carrying on business in the Czech Republic. While the total number of insurance undertakings based in the Czech Republic remained unchanged in 2018, the number of branches of foreign insurance undertakings decreased by one compared with 2017.[124] This figure and the other numerical data given for the insurance sector exclude the Czech Insurers' Bureau,[125] Exportní garanční a pojišťovací společnost, a.s. (EGAP)[126] and VIG RE zajišťovna, a.s.[127] (See Table B.III.1)

Of the total of 26 domestic insurance undertakings, 15 were controlled by foreign owners as at the end of 2018. Domestic insurance undertakings focusing on both life and non-life insurance (14 entities) predominated, followed by 11 insurance undertakings specialising in non-life insurance. Only one domestic insurance undertaking specialised in life insurance. (See Chart B.III.1)

All the branches of foreign insurance undertakings belonged to insurance undertakings based in EEA states. The majority of the branches (14) specialised in non-life insurance, while six specialised in life insurance only.

In addition to the above-mentioned domestic insurance undertakings and branches of foreign insurance undertakings licensed by the CNB, insurance undertakings and branches thereof from other EEA member states may offer cross-border services in the Czech insurance market under the freedom to provide services. In all, 960 of these entities were registered as of 31 December 2018, a rise of 10% compared with the end of 2017.

124 The figure also includes Pojišťovna České spořitelny, a.s., Vienna Insurance Group, which ceased to exist as of the effective date of its merger with Kooperativa pojišťovna, a.s, Vienna Insurance Group on 1 January 2019. Two branches from the EU terminated their activities in 2018: AIG Europe Limited, organizační složka pro Českou republiku, and Stewart Title Limited, organizační složka. On the other hand, the Liechtenstein-based ASPECTA Assurance International AG, pobočka pro Českou republiku, notified the CNB of its activities in the Czech Republic.

125 The Czech Insurers' Bureau (Česká kancelář pojistitelů, ČKP) is a professional organisation of insurers licensed to provide motor third party liability insurance. For details on its activities and financial performance, see www.ckp.cz.

126 EGAP was established in 1992 as a wholly state-owned joint-stock company. It is a credit insurance undertaking specialising in market-uninsurable political and commercial risks associated with the financing of exports of goods, services and investment from the Czech Republic. Detailed information is available at www.egap.cz.

127 VIG RE zajišťovna, a.s has been operating on the Czech Market since 2008. It is authorised to assume reinsurance risks in all segments of both the life insurance and non-life insurance markets as well as to carry on related activities such as consultancy, intermediation, training and examination of reinsurance cases.

Table B.III.1

NUMBER OF INSURANCE UNDERTAKINGS BY FOCUS OF ACTIVITY

	2016	2017	2018
NUMBER OF INSURANCE UNDERTAKINGS, TOTAL	52	47	46
of which:			
non-life	32	27	25
life	6	6	7
both life and non-life	14	14	14
NUMBER OF DOMESTIC INSURANCE UNDERTAKINGS	28	26	26
of which:			
non-life	13	11	11
life	1	1	1
both life and non-life	14	14	14
NUMBER OF BRANCHES OF INSURANCE UNDERTAKINGS FROM EU AND THIRD COUNTRIES	24	21	20
of which:			
non-life	19	16	14
life	5	5	6
both life and non-life	0	0	0

Note: Excluding the CIB, EGAP and VIG

Chart B.III.1

OWNERSHIP STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS

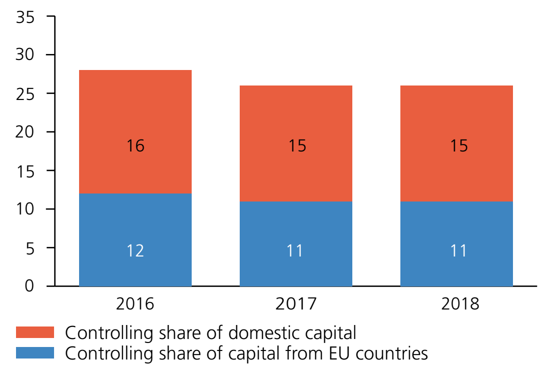


CHART B.III.2

GROSS PREMIUMS WRITTEN
(in CZK billions)

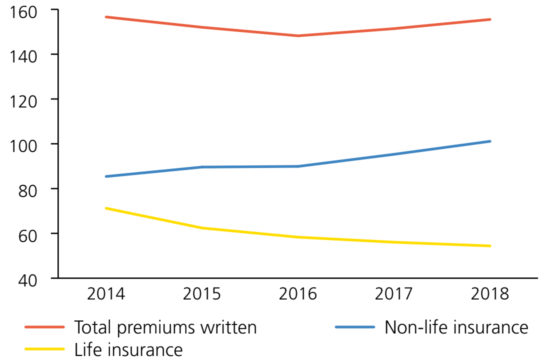


CHART B.III.3

SHARES OF LIFE INSURANCE AND NON-LIFE INSURANCE IN GROSS PREMIUMS WRITTEN
(in %)

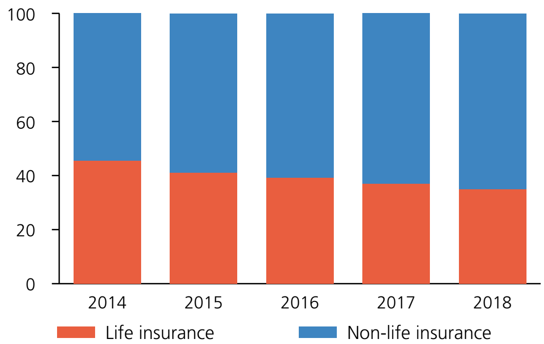
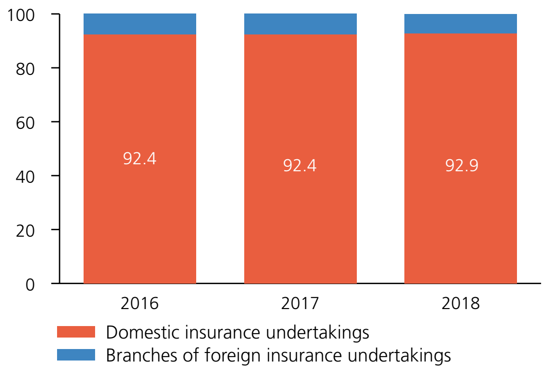


CHART B.III.4

SHARES OF ENTITIES IN GROSS PREMIUMS WRITTEN
(in %)



3.2 PREMIUMS WRITTEN

Gross premiums written are one of the key indicators of the insurance market. They totalled CZK 155.5 billion in 2018, up by 2.7% compared with 2017. This increase reflected a 6.1% rise in premiums written in non-life insurance to CZK 101.1 billion, while premiums written in life insurance amounted to CZK 54.4 billion in 2018, down by 2.9% from a year earlier. (See Chart B.III.2)

The gradual downward trend in the share of life insurance in total gross premiums written, observed in recent years, thus continued into 2018. This share declined by 2 percentage points compared with the previous year, to 35%. (See Chart B.III.3)

As regards the breakdown of total gross premiums written by type of entity, there was no major change in year-on-year comparison, as the slight annual increase of 0.5 percentage point in the share of domestic insurance undertakings confirmed the persisting dominant role of domestic insurance undertakings, which accounted for 92.9% of total gross premiums in 2018. (See Chart B.III.4)

Insurance penetration, as expressed by the ratio of gross premiums written to GDP at current prices, is a key macroeconomic indicator relating to the insurance market. Insurance penetration declined by a marginal 0.1 percentage point year on year to 2.9% in 2018. This was due to a decline in life insurance premiums written in an environment of economic growth. The share of non-life insurance premiums written to GDP remained the same as in the previous year. (See Chart B.III.5)

An important instrument used by insurance companies to mitigate the risk arising from potential large-scale losses is reinsurance. This instrument is used primarily by non-life insurers in cases where higher claim settlement limits could put their financial stability and solvency at risk. In 2018, non-life insurance premiums ceded to reinsurers amounted to CZK 27.4 billion, representing 27.1% of gross premiums written. The share of premiums ceded to reinsurers was significantly lower in life insurance than in non-life insurance. In life insurance, premiums of CZK 4.5 billion were ceded to reinsurers. This represented 8.2% of total premiums written in life insurance.

The importance of the individual insurance classes can be quantified using the share of gross premiums written for the particular types of insurance in total premiums. In this respect, index-linked and unit-linked life insurance accounted for the biggest share in domestic life insurance (43.7% of gross premiums written) at the end of 2018.

Insurance with profit participation made up 33.8% and health insurance 5% of total life insurance premiums. The residual share of other life insurance, which falls outside the above categories, was 17.6%. No major annual changes were observed in the premium structure. (See Chart B.III.6)

Domestic non-life insurers were focused, again in terms of the share of premiums written for the particular types of insurance in total gross premiums written, on insurance against fire and other damage to property (26.1%), motor vehicle liability insurance (25.7%) and other motor insurance (21.9%). Lower shares in premiums were recorded for general liability insurance (8.8%) and workers' compensation insurance (7.3%). Other forms of non-life insurance, which include income protection insurance, health insurance and miscellaneous financial loss insurance, had a total share of 10.2%. Again, no major changes were observed in the distribution of non-life insurance premiums written. (See Chart B.III.7)

CHART B.III.5

SHARES OF PREMIUMS WRITTEN IN GDP
(in %)

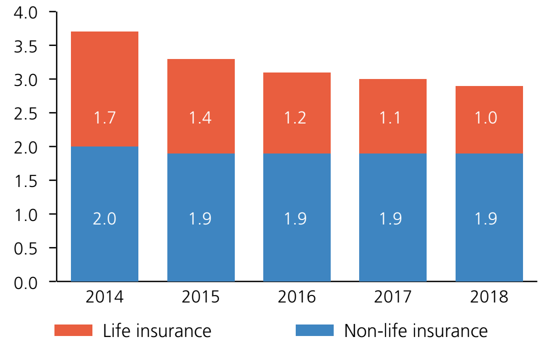


CHART B.III.6

CLASSES OF LIFE INSURANCE OF DOMESTIC INSURANCE UNDERTAKINGS

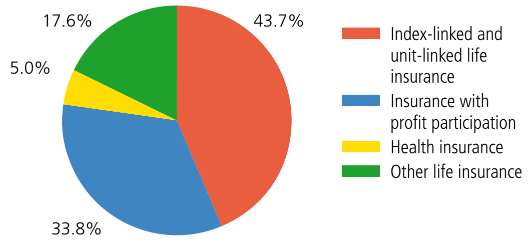


CHART B.III.7

CLASSES OF NON-LIFE INSURANCE OF DOMESTIC INSURANCE UNDERTAKINGS

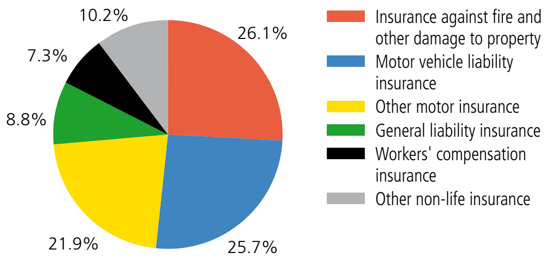
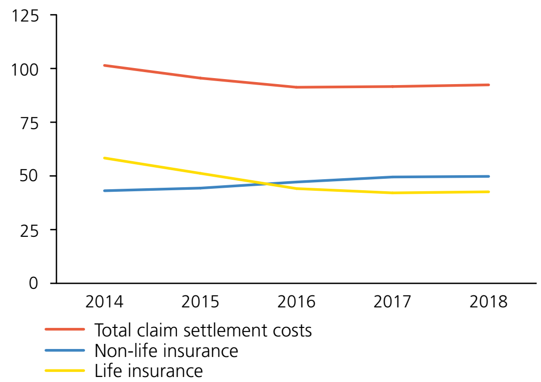


CHART B.III.8

GROSS CLAIM SETTLEMENT COSTS
(in CZK billions)



3.3 CLAIM SETTLEMENT COSTS

Gross claim settlement costs[128] totalled CZK 92.4 billion in 2018. This represented a year-on-year increase of CZK 0.8 billion, or 0.8%. In non-life insurance, this indicator amounted to CZK 49.8 billion, up by CZK 0.3 billion year on year. A larger increase in gross insurance claim costs – of CZK 0.5 billion to CZK 42.6 billion – was recorded for life insurance. (See Chart B.III.8)

The share of reinsurers in claim settlement costs to some extent matched their share in premiums written. In 2018, the share of reinsurers in claim settlement costs in non-life insurance was 25%, which is 0.1 percentage point less than in the previous year. The share of reinsurers in claim settlement costs in life insurance declined by 0.4 percentage point compared with 2017 to 5.2%. Total claim settlement costs borne by reinsurers amounted to CZK 14 billion in absolute terms, almost the same level as reported at the end of 2017.

128 Claim settlement costs are given gross of the share of reinsurers.

3.4 ASSETS OF INSURANCE UNDERTAKINGS[129]

The total assets of insurance undertakings amounted to CZK 491 billion, up by CZK 4.8 billion, or 1%, year on year. Domestic insurance undertakings had a dominant share (90.5%) in this amount, with total assets of CZK 444.6 billion at the end of 2018, a year-on-year increase of 2.2%. The assets of branches of foreign insurance undertakings totalled CZK 46.5 billion as of the same date. This represented a decrease of 9.5% compared with 2017. (See Table B.III.2)

Given the nature of insurance undertakings' business model, investments are the most important category of insurance undertakings' assets. Domestic insurance undertakings recorded total investments of CZK 324.6 billion at the end of 2018, up by 3.8% year on year. In 2018, as in previous years, debt securities – with a total volume of CZK 220.7 billion – accounted for the biggest share of investments. Debt securities therefore represented almost half of the total assets of domestic insurance undertakings in terms of value. The share of participating interests in total investments recorded a stronger increase in 2018, rising by CZK 18.2 billion to CZK 42.7 billion.[130] (See Table B.III.3)

Investments of life insurance where the investment risk is borne by the policy holders were another important asset item. These investments accounted for 15.9% of total assets, decreasing by CZK 4.2 billion year on year to CZK 70.6 billion. Receivables from insurance undertakings' debtors amounted to CZK 16 billion at the end of 2018, a negligible rise compared with a year earlier. Other assets, which included cash at financial institutions, cash in hand and deferred acquisition costs for insurance contracts, accounted for the remaining 7.5% of the total assets of domestic insurance undertakings.

TABLE B.III.2

SHARES OF INSURANCE UNDERTAKINGS IN TOTAL ASSETS
(in CZK billions)

	2016	2017	2018	Share 2018 (in %)
TOTAL ASSETS	466.1	486.2	491.0	100.0
Domestic insurance undertakings	414.5	434.8	444.6	90.5
Branches of insurance undertakings	51.6	51.4	46.5	9.5

TABLE B.III.3

ASSET STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS
(in CZK billions)

	2016	2017	2018	Structure 2018 (in %)
TOTAL ASSETS	414.5	434.8	444.6	100.0
Investments	298.7	312.6	324.6	73.0
of which:				
Real estate	3.5	3.5	3.2	0.7
Participating interests	23.2	24.5	42.7	9.6
Shares, variable-yield securities	23.0	22.8	21.7	4.9
Debt securities	233.7	223.9	220.7	49.6
Deposits at financial institutions	8.9	6.2	7.5	1.7
Other financial placements	6.4	31.7	28.8	6.5
Investments of life insurance where investment risk is borne by policy holders	69.8	74.8	70.6	15.9
Debtors (receivables)	15.9	15.7	16.0	3.6
Other assets	30.1	31.7	33.4	7.5

129 The overview of domestic insurance undertakings' assets and liabilities is based on balance sheets reported in accordance with accounting standards, not the Solvency II methodology.

130 The stronger increase in the share of domestic insurance undertakings' participating interests in their total assets reflected a temporary increase in the "shares in subsidiaries" item in Kooperativa pojišťovna, a.s., Vienna Insurance Group, due to its merger with Pojišťovna České spořitelny, a.s., Vienna Insurance Group, in 2018.

Table B.III.4

LIABILITY STRUCTURE OF DOMESTIC INSURANCE UNDERTAKINGS
(in CZK billions)

	2016	2017	2018	Structure 2018 (in %)
TOTAL LIABILITIES	414.5	434.8	444.6	100.0
Shareholders' equity	72.0	68.8	86.4	19.4
Technical provisions[a)]	223.5	220.6	217.5	48.9
Provision for life insurance where investment risk is borne by policy holders[a)]	69.8	74.7	70.6	15.9
Creditors (liabilities)	30.3	51.5	50.2	11.3
Other liabilities	18.9	19.2	19.9	4.5

a) net amount

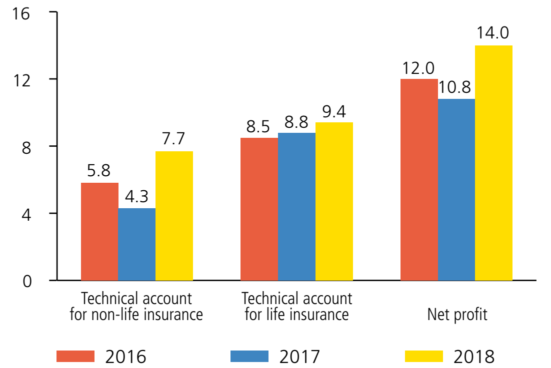
3.5 LIABILITIES OF INSURANCE UNDERTAKINGS

Technical provisions are the largest liability item for insurance undertakings. The net technical provisions[131] of domestic insurance undertakings amounted to CZK 217.5 billion at the end of 2018, down by CZK 3.1 billion from the previous year. This liability item, which consists of the provision for unearned premiums, the life insurance provision, the outstanding claims provision, the provision for bonuses and rebates and other provisions, accounted for almost a half of domestic insurance undertakings' total liabilities. Technical provisions for unit-linked life insurance, which are given separately, declined by CZK 4.1 billion year on year to CZK 70.6 billion in 2018. (See Table B.III.4)

The shareholders' equity of domestic insurance undertakings formed more than 19% of total liabilities. Its aggregated level for domestic insurance undertakings was CZK 86.4 billion, which corresponded to relatively high year-on-year growth of CZK 17.6 billion. Liabilities to creditors remained relatively stable in year-on-year terms, as did other liabilities such as passive reinsurance deposits.

Chart B.III.9

PROFITS OF INSURANCE UNDERTAKINGS
(in CZK billions)



3.6 PROFITS OF INSURANCE UNDERTAKINGS

The net profit of the domestic insurance sector (including branches of foreign insurance undertakings) amounted to CZK 14 billion in 2018. This figure represents an increase in profit of CZK 3.2 billion compared with the previous year. The technical account[132] for non-life insurance ended 2018 in a profit of CZK 7.7 billion, up by CZK 3.4 billion compared with the previous year. The technical account for life insurance recorded a profit of CZK 9.4 billion in 2016, CZK 0.6 billion more than in 2017. (See Chart B.III.9)

The structure of the Czech insurance market, where domestic insurance undertakings have a dominant share, was also reflected to a large extent in the distribution of the sector's aggregate profit. The net profit of domestic insurance undertakings accounted for the lion's share of 93.3% of the sector's total net profit, down by 3.9 percentage points year on year. Domestic insurance undertakings generated a net profit of CZK 13.1 billion in 2018, up by CZK 2.6 billion compared with 2017. Branches of foreign insurance undertakings generated a net profit of CZK 0.9 billion in 2018. Their profit thus went up by CZK 0.6 billion year on year. (See Table B.III.5)

Table B.III.5

PROFIT OF INSURANCE UNDERTAKINGS
(in CZK billions)

	2016	2017	2018	Structure 2018 (in %)
NET PROFIT, TOTAL	12.0	10.8	14.0	100.0
Domestic insurance undertakings	11.2	10.5	13.1	93.3
Branches of insurance undertakings	0.8	0.3	0.9	6.7

131 Net of the share of reinsurers in technical provisions.

132 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 insurance and a non-technical account, which comprises income and expenses that cannot be assigned to life or non-life insurance.

The return on assets (RoA) of domestic insurance undertakings increased by 0.5 percentage point year on year to 2.9% in 2018, while return on equity (RoE) edged down by 0.1 percentage point to 15.1%, due mainly to a larger rise in equity compared with 2017. (See Table B.III.6)

TABLE B.III.6

PROFITABILITY AND EFFICIENCY OF DOMESTIC INSURANCE UNDERTAKINGS
(in %)

	2016	2017	2018
DOMESTIC INSURANCE UNDERTAKINGS, TOTAL			
Net profit/assets (RoA)	2.7	2.4	2.9
Net profit/shareholders' equity (RoE)	15.6	15.2	15.1
Net profit/earned premiums	10.4	9.6	11.7
NON-LIFE INSURANCE			
Profit on technical account for non-life insurance/earned premiums	9.4	6.6	10.6
Claims incurred, including change in TPs/earned premiums	57.3	58.6	54.7
Net operating costs/earned premiums	31.5	30.6	30.0
Acquisition costs for insurance contracts/earned premiums	28.5	27.9	27.5
Administrative expenses/earned premiums	13.0	12.6	13.0
LIFE INSURANCE			
Profit on technical account for life insurance/earned premiums	16.2	18.8	19.9
Claims incurred, including change in TPs/earned premiums	77.9	75.9	81.8
Net operating costs/earned premiums	23.6	24.0	23.8
Acquisition costs for insurance contracts/earned premiums	18.3	18.9	19.9
Administrative expenses/earned premiums	8.4	8.5	9.8

As regards non-life insurance, the ratio of profit on the technical account to earned premiums of domestic insurance undertakings increased by 5 percentage points to 10.6%. The ratio of claims incurred (including change in technical provisions) to earned premiums also showed a positive shift, dropping by 3.9 percentage points to 54.7% in 2017. Decreases were also recorded by net operating costs and acquisition costs for insurance contracts as a percentage of earned premiums. By contrast, the ratio of administrative expenses to earned premiums went up by 0.4 percentage point to 13%.

Turning to life insurance, the ratio of profit on the technical account to earned premiums increased by 1.1 percentage points to 19.9% in 2018. As regards cost indicators in life insurance, increases were recorded, among other things, by the ratio of claims incurred, acquisition expenses for insurance contracts and administrative expenses as a percentage of earned premiums. By contrast, the ratio of net operating costs to earned premiums dropped by 0.2 percentage point to 23.8%.

3.7 SOLVENCY AND MINIMUM CAPITAL REQUIREMENT

Under Solvency II, domestic insurance undertakings report two important indicators to the Czech National Bank: the ratio of eligible own funds to the solvency capital requirement (SCR[133]), and the ratio of eligible own funds to the minimum capital requirement (MCR[134]). If the ratio of the eligible own funds (for compliance with the SCR) to the SCR of the insurance undertaking falls below 100%, the supervisory authority must intervene. If the insurance undertaking is unable to cover the MCR with eligible own funds (for compliance with the MCR) and then fails to submit a short-term funding plan or the CNB does not approve that plan, its licence should be withdrawn.

The data reported by domestic insurance undertakings at the end of 2018 reveal that the Czech insurance market is sufficiently able to meet the Solvency II capital requirements. No domestic insurance undertaking reported a ratio of eligible own funds to the MCR of less than 100% at the end of 2018. The median ratio of capital requirements to the MCR was 404%. The median ratio of eligible own funds to the SCR of domestic insurance corporations was 207%. (See Table B.III.7)

TABLE B.III.7

COMPLIANCE WITH SOLVENCY II CAPITAL REQUIREMENTS BY DOMESTIC INSURANCE UNDERTAKINGS

	31 December 2016	31 December 2017	31 December 2018
Aggregate eligible own funds for compliance with SCR	CZK 112.5 billion	CZK 111.2 billion	CZK 121.0 billion
Median ratio of eligible own funds to SCR	214%	239%	207%
Aggregate eligible own funds for compliance with MCR	CZK 112.5 billion	CZK 111.1 billion	CZK 116.5 billion
Median ratio of eligible own funds to MCR	306%	402%	404%

133 The SCR is calculated at least once a year, using the standard formula in combination with a partial internal model, or using a full internal model. In the calculation, the domestic insurance undertaking must take into account all the measurable risks to which it is exposed. These include measurable risks on liabilities arising from existing contracts and contracts which the insurance undertaking expects to be concluded over the next 12 months. The SCR corresponds to the value at risk of the insurance undertaking's basic own funds at a confidence level of 99.5% over a one-year period.

134 The MCR is the level of eligible own funds under which policy holders and beneficiaries would be exposed to unacceptable risk if the insurance undertaking was allowed to continue operating. It is calculated quarterly as a linear function of a set or subset of variables, such as the insurance undertaking's technical provisions, premiums written, capital at risk, deferred taxes and administrative expenses. These variables are measured net of reinsurance. The minimum MCR levels are stipulated by law.

4. THE CAPITAL MARKET

4.1 PENSION MANAGEMENT COMPANIES AND THEIR FUNDS

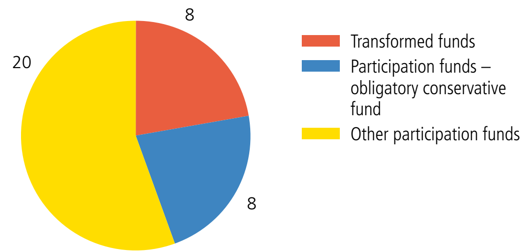
The domestic sector of pension management companies and their funds saw no major structural changes in 2018.

4.1.1 Pension management companies

A total of eight pension management companies were active in the area of private pension and supplementary pension savings in the Czech Republic as of the end of 2018, the same number as at the end of 2017. The number of funds managed by them remained unchanged year on year, as pension management companies were managing assets in 36 pension management company funds at the end of 2018, of which 28 were participation funds and eight were transformed funds. (See Chart B.IV.1)

CHART B.IV.1

THIRD-PILLAR FUNDS
(numbers of funds; as of 31 December 2018)



Pension management companies generated a net after-tax profit of CZK 1.4 billion in 2018, a slight year-on-year increase of CZK 38 million. Financial and operating profit rose by CZK 0.2 billion (or 5.8%) year on year to CZK 2.9 billion.

The net profit generated from fees and commissions recorded a similar relative year-on-year increase to CZK 2.85 billion in 2018. Fee and commission income rose year on year (by 7% to CZK 3.8 billion), mainly due to a rise in remuneration for fund asset management, which went up by 6.2% to CZK 3.5 billion. Fee and commission expenses exceeded CZK 1 billion in 2018, having risen by 10.5% year on year.

The administrative expenses of pension management companies were flat at CZK 1.1 billion year on year, with a slight increase in outsourcing costs being offset by a roughly equal decline in sales promotion, marketing and consulting expenses.

Pension management companies recorded total capital of CZK 9.3 billion at the end of 2018, up by 3.5% year on year. The ratio of total capital to the specified capital requirements was 153.8%, up by 14.1 percentage points on a year earlier. (See Table B.IV.1)

TABLE B.IV.1

CAPITAL AND CAPITAL REQUIREMENTS
Pension management companies

	2016	2017	2018	Change 2018/2017 (in %)
Capital, total (in CZK millions)	8,899.7	9,013.3	9,328.7	3.5
Capital requirements (in CZK millions)	7,420.6	6,451.8	6,065.6	-6.0
Capital ratio (in %)	119.9	139.7	153.8	N/A

4.1.2 Planholders in the third pillar

The CNB recorded more than 4.4 million planholders participating in the third pension pillar at the end of 2018. Their number decreased by 14,231 year on year; this was the fifth consecutive year of decline in the number of planholders. The decrease was a consequence of a fall in the number of pension scheme planholders in transformed funds of 6% to 3.5 million, which was only partly offset by an increase in the number of supplementary pension savings planholders of 26.8% year on year to 967,000. (See Table B.IV.2)

TABLE B.IV.2

NUMBERS AND STRUCTURE OF THIRD-PILLAR PARTICIPANTS
(in thousands; as of end of period)

	2016	2017	2018
Numbers of third-pillar participants			
Number of supplementary pension savings planholders	542.0	762.8	967.0
Number of private pension scheme planholders	3,979.4	3,690.5	3,472.1
Third-pillar participants by contribution type			
Planholders with own contribution	4,414.7	4,355.1	4,342.1
Planholders with employer contribution	1,304.1	1,354.2	1,423.5
Planholders with state contribution	3,576.0	3,640.2	3,651.9

CHART B.IV.2

ASSETS BY FUND TYPE
Pension management company funds
(in CZK billions; at end of period)

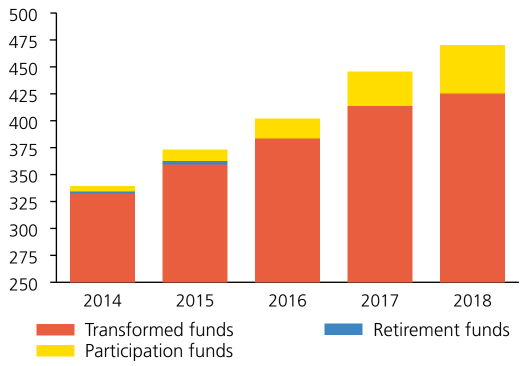
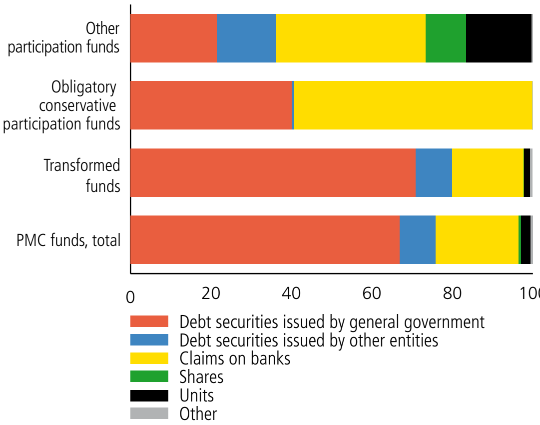


CHART B.IV.3

ASSETS OF THIRD-PILLAR FUNDS
(in %; as of 31 December 2018)



4.1.3 Assets of pension management company funds

Pension management companies were managing assets totalling CZK 470.3 billion in third-pillar funds at the end of 2018, up by 5.6% on 2017. Transformed funds still accounted for the bulk (90.6%) of the assets of pension management company funds, although the share of participation funds rose by 2.4 percentage points year on year to 9.4%. (See Chart B.IV.2)

Transformed funds allocated most of their assets to debt securities (79.9% of total assets). Only 1.6% of total assets were invested in shares and units, while 17.8% were invested in time deposits and on term accounts. The rest were invested in other assets.

Since participation funds do not have to guarantee non-negative returns, their asset structure tends to be less conservative than that of transformed funds. At the end of 2018, obligatory conservative participation funds' investments in debt securities accounted for 40.8% of their assets, while investments in claims on banks (deposits) accounted for 59.1%. By contrast, other participation funds had higher shares of investments in shares (10% of assets) and units (16.3% of assets). Their investments in debt securities amounted to 36.2% and their investments in claims on banks to 37.2% of their total assets. (See Chart B.IV.3)

4.1.4 Planholders' own funds in pension management company funds

Pension management funds were managing planholders' own funds totalling CZK 448.6 billion in third-pillar funds at the end of 2018, up by 8.7% on a year earlier. Most of these funds (90.5%) were in transformed funds and a smaller proportion (9.5%) were in participation funds. Both fund types saw year-on-year growth in funds – high growth of 42.7% for participation funds and moderate growth of 6.1% for transformed funds.

In 2018, third-pillar funds received contributions totalling CZK 63.6 billion, up by 6.5% year on year. Of this amount, contributions to transformed funds accounted for 71.6%, down by 6.4 percentage points year on year. By contrast, participation funds received CZK 18.0 billion, i.e. CZK 4.9 billion more than in 2017.

With regard to the structure of the contributions, the majority were planholders' own contributions (59.7%), followed by contributions from employers (16.4%) and state contributions (10.7%). Other contributions received mainly comprised returns on contributions credited to transformed fund planholders (3.9% of contributions received) and funds transferred from transformed funds to participation funds (6.3%). The remainder were transfers from other pension management companies, unidentified payments and funds received from other sources. (See Charts B.IV.4 and B.IV.5)

4.1.5 Funds paid out from pension management company funds

Pension management company funds paid out a total of CZK 28.7 billion to planholders in 2018, up by CZK 0.8 billion year on year. Most of this amount (78.9%, or CZK 22.6 billion) consisted of funds paid out to planholders, where the dominant types of payment were lump-sum settlements and surrenders. (See Chart B.IV.6)

Transformed funds of pension management companies paid out a total of CZK 25.2 billion to planholders in 2018. This was CZK 3.5 billion more than a year earlier. Lump-sum settlements represented the largest part of this figure (CZK 15.7 billion, 200,281 cases). Surrenders were another important component of the total amount paid out (CZK 2.3 billion, 68,528 cases).

Participation funds of pension management companies paid out a total of CZK 3.4 billion to planholders in 2018, with lump-sum settlements accounting for the largest share (CZK 1.2 billion, 17,592 cases), followed by surrenders (CZK 0.9 billion, 20,057 cases). The number of persons receiving retirement pensions from these funds increased from 4,227 to 6,165 year on year.

CHART B.IV.4

CONTRIBUTIONS RECEIVED BY PMC FUNDS
(in CZK billions; at end of period)

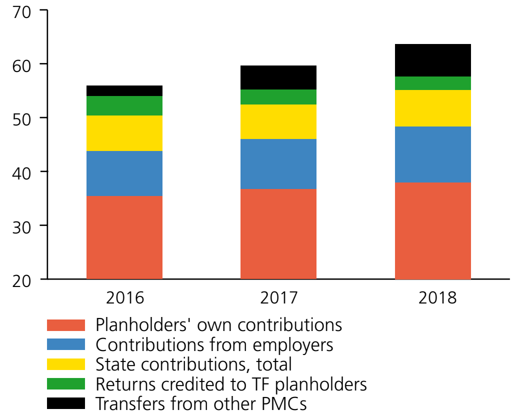


CHART B.IV.5

CONTRIBUTIONS RECEIVED
Third-pillar funds
(in %; as of 31 December 2018)

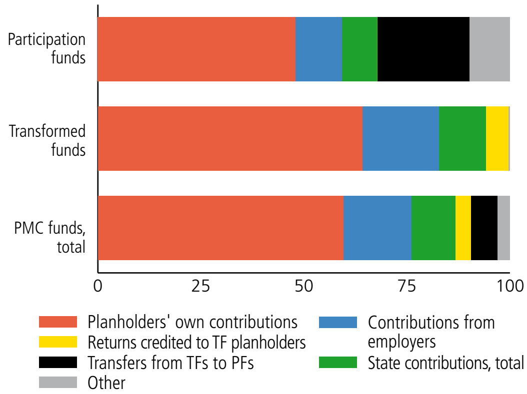
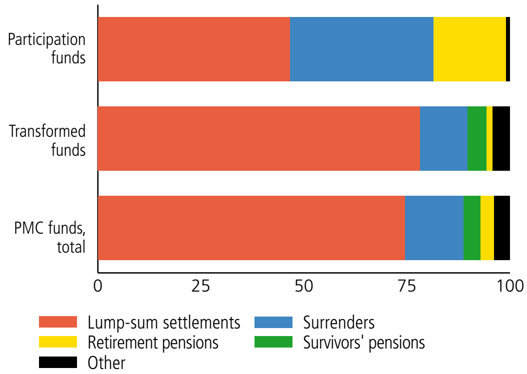


CHART B.IV.6

BENEFITS PAID TO PLANHOLDERS
Third-pillar funds
(in %; as of 31 December 2018)



A large part (17.6%, i.e. CZK 5 billion) of the amounts paid out from the funds managed by pension companies were transfers from transformed funds to participation funds and transfers among pension management companies. The remainder were funds returned to the state budget (1.7%), funds returned to planholders (1.1%) and other funds paid (0.7%).

4.2 INVESTMENT FIRMS

4.2.1 Licensed investment firms

There were 37 investment firms registered on the Czech capital market as of the end of 2018, 16 of them banks and 21 non-bank investment firms. A total of 15 foreign bank branches, 27 branches of foreign non-bank investment firms and nine asset management companies[135] were also active on the Czech market. (See Chart B.IV.7)

As of the same date, licensed investment firms[136] registered a total of 1.6 million client accounts. A large majority of clients (0.9 million) had an open trading account with banks. Domestic non-bank investment firms registered 0.3 million client accounts, while significantly lower numbers were registered by foreign bank branches (around 50,900), foreign investment firm branches (around 18,500) and domestic asset management companies (around 14,100).

4.2.2 Client assets and managed funds

Total client assets in the investment firm sector amounted to CZK 4,448.7 billion at the end of 2018, down by 4.4% from a year earlier. Domestic banks were managing CZK 3,011.9 billion (down by 3.6%), while assets managed by domestic non-bank investment firms totalled CZK 377.4 billion (up by 2.6%). Management companies carrying out portfolio management registered assets totalling CZK 589.5 billion at the end of 2018 (up by 5.3% year on year). The assets of clients of foreign bank branches decreased by 22.3% year on year to CZK 466.6 billion. (See Chart B.IV.8)

Funds managed by investment firms ran to CZK 841.3 billion at the end of 2018, representing a slight year-on-year decline of 0.8%. Asset management companies managed the most funds (CZK 589.5 billion), up by 5% on a year earlier. By contrast, all other entities in this sector recorded a decline in total funds managed. In the case of domestic non-bank investment firms, the year-on-year decline was almost 15% to CZK 182.3 billion, while funds entrusted to domestic bank investment firms fell by 4% to CZK 68.8 billion. Very low amounts of funds managed were recorded by foreign bank branches and foreign investment firm branches (CZK 0.8 billion in total). (See Chart B.IV.9)

135 Management companies which provide the core investment service of asset management for a client if an investment instrument is part of such assets pursuant to Article 4(2)(d) of the Capital Market Undertakings Act (referred to as "asset management companies" or "AMCs").

136 Entities licensed by the CNB and branches of entities registered in another EU Member State which are authorised to provide investment services in the Czech Republic.

CHART B.IV.7

INVESTMENT FIRMS
(numbers of firms at end of period)

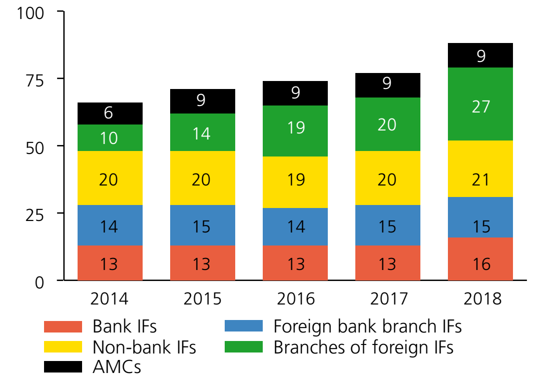


CHART B.IV.8

CLIENT ASSETS
Licensed investment firms
(in CZK billions; at end of period)

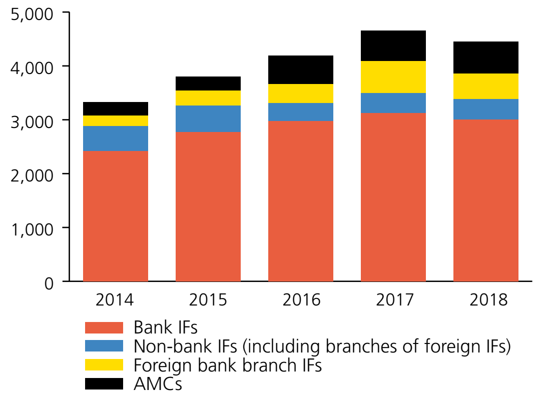
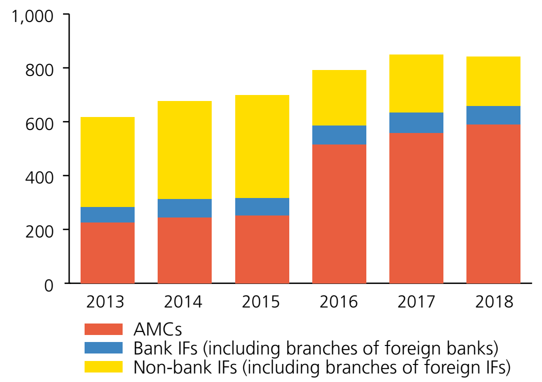


CHART B.IV.9

FUNDS MANAGED
Licensed investment firms
(in CZK billions; at end of period)



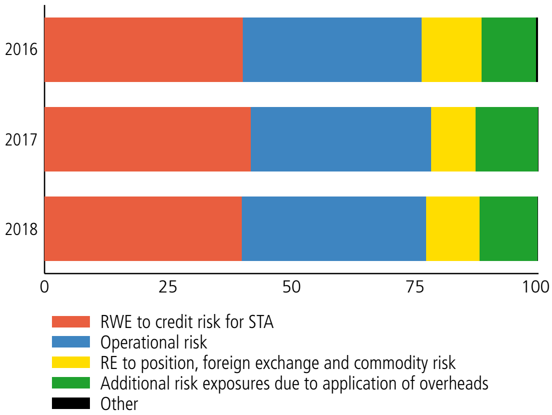
4.2.3 Capital, ratios and profits of investment firms[137]

The capitalisation of the investment firm sector was sufficient in 2018. The regulatory capital of domestic non-bank investment firms (21 entities) totalled CZK 2.7 billion, an increase of 9% compared with a year earlier. The main component was Common Equity Tier 1 (CET1), which accounted for 99.3% of total regulatory capital at the end of 2018.

Non-bank investment firms recorded risk exposures totalling CZK 12.1 billion at the end of 2018, of which CZK 2.1 billion was exposures of investment firms with a restricted licence to provide investment services[138] and exposures of investment firms with a restricted licence for own-account trading.[139]

Chart B.IV.10

RISK EXPOSURES
Non-bank investment firms
(structure in %; at end of period)



With a share of 39.9%, risk-weighted exposures to credit risk using the standardised approach (STA) were the largest component of risk exposures in 2018. Risk exposures to operational risk were also significant (37.3%). Other components included additional risk exposures due to the application of overheads and risk exposures calculated for position, foreign exchange and commodity risk, which accounted for 11.7% of total exposures each. (See Chart B.IV.10)

The profitability of non-bank investment firms deteriorated slightly compared with the previous period. These entities generated an aggregate net profit of CZK 752 million in 2018, down by 5% year on year. Financial and operating profit remained almost unchanged (up by 0.3% year on year), but administrative expenses rose by almost 7% year on year. The ratio of administrative expenses to financial and operating profit was 70.7%, while that of administrative expenses to average assets was 9.7%. Both ratios increased year on year (by 1.1 and 4.6 percentage points respectively).

137 This section analyses the capital and profits of domestic non-bank investment firms, unless stated otherwise.

138 Under Articles 95(2) and 98 of the CRR.

139 Under Articles 96(2) and 97 of the CRR.

Total financial and operating profit was little changed compared with the previous year. Dividend income fell by more than one-half and fees and commission profit by 4.6%. By contrast, profit from revaluation of assets and other operating gain both rose by around one-quarter. (See Table B.IV.3)

The after-tax profit of non-bank investment firms represented 3.2% of average assets in 2018. This ratio was unchanged year on year. The ratio of net profit to average Tier 1 capital stood at 30.9%, representing a slight decrease of 1.7 percentage points compared with the previous year.

Table B.IV.3

PROFIT AND LOSS ACCOUNT – NON-BANK INVESTMENT FIRMS
(in CZK millions)

	2016	2017	2018	Change 2018/2017 (in %)
Financial and operating profit	2,889.1	3,233.4	3,243.0	0.3
of which:				
Interest profit	59.2	44.7	47.1	5.3
Dividend income	36.2	65.1	30.3	-53.4
Fee and commission profit	2,206.1	2,505.5	2,389.8	-4.6
Profit from revaluation of assets	530.2	460.4	579.4	25.8
Other operating gain/loss	57.3	157.7	196.5	24.5
Administrative expenses	1,953.1	2,144.9	2,292.6	6.9
Depreciation and provisions	88.7	91.8	70.3	-23.5
Impairment	1.0	1.1	1.5	46.1
Profit or (-) loss from other activities	2.3	-0.8	-0.8	-1.0
Tax expense	179.7	203.5	125.9	-38.1
PROFIT for year after tax	668.8	791.3	752.0	-5.0

4.3 FUND INVESTMENT

The structure of the fund investment sector recorded no major changes. The most important change in the legislative area was the coming into effect of an amendment to the Capital Market Undertakings Act.[140]

4.3.1 Structure of the management companies and investment funds sector

A total of 30 management companies, one branch of a foreign management company, 242 mutual funds, 29 autonomous funds and 109 non-autonomous investment funds with legal personality were active on the Czech capital market at the end of 2018. Almost two-thirds (153) of mutual funds were collective investment funds intended for the general public (of which 62 were standard funds). The remaining funds were funds for qualified investors.

With a single exception (the new Broker Consulting SICAV fund), all 138 investment funds with legal personality were intended for qualified investors. The most frequent legal form of establishing these funds was that of a SICAV.[141] The CNB registered 116 investment funds with variable registered capital at the end of 2018, up by 13 compared with the end of 2017.

Besides domestic investment and mutual funds, domestic investors could also invest in 1,666 foreign funds authorised to offer services in the Czech Republic. Among others, 1,410 funds comparable to standard funds and 34 funds comparable to special funds were offered in this way. According to the Czech Capital Market Association, a total of CZK 189 billion was invested in foreign collective investment funds at the end of 2018, 7.0% less than a year earlier.

Foreign funds comparable to funds for qualified investors are analogous to domestic funds for qualified investors. They totalled 173 at the end of 2018. A large majority were funds managed by managers authorised to exceed the reference limit. Lastly, specialised European Venture Capital Funds (EuVECAs) and European Social Entrepreneurship Funds (EuSEFs) are also offered in the Czech Republic. Although no domestic EuVECAs and EuSEFs have been established in the Czech Republic so far, domestic investors were able to invest in 48 foreign EuVECAs and one foreign EuSEF in 2018.

140 Act No. 204/2017 Coll., which transposes the MiFID II directive into Czech law, came into effect at the start of 2018. The main practical consequences of the directive for the fund investment sector are increased transparency of management company and collective investment fund bodies and transparency of the fee structure.

141 A joint-stock company with variable registered capital, a legal form introduced by the Act on Management Companies and Investment Funds (2013).

4.3.2 Management companies

For management companies, 2018 was a quite successful year. Their aggregate net profit after tax was CZK 1.1 billion, a year-on-year increase of 12.3%. Financial profit rose by 13.8% year on year to CZK 2.8 billion. This rise primarily reflected an identical percentage increase in fee and commission profit, which was the key component of profit. Administrative expenses amounted to CZK 1.3 billion in 2018, representing year-on-year growth of 17.3%.

The ratio of the total capital of management companies to the capital requirements decreased by 48 percentage points to 587.6%, as the rise in capital requirements exceeded that in total capital. (See Table B.IV.4)

TABLE B.IV.4

CAPITAL AND CAPITAL REQUIREMENTS
Management companies

	2016	2017	2018	Change 2018/2017 (in %)
Capital, total (in CZK millions)	1,462.5	1,757.6	1,867.3	6.2
Capital requirements (in CZK millions)	263.1	276.6	317.8	14.9
Capital ratio (in %)	555.8	635.4	587.6	N/A

4.3.3 Assets in domestic investment funds

As a result of an increase in assets both in collective investment funds and in funds for qualified investors, the total assets managed in domestic investment funds increased by 7.9% year on year to CZK 522.4 billion at the end of 2018. (See Chart B.IV.11)

The total assets managed in domestic collective investment funds rose by 1.6% year on year to CZK 320.2 billion.

Compared with the previous year, the market concentration of collective investment funds increased slightly in terms of total assets managed. At the end of 2018, the three companies with the largest shares in assets managed were managing 59.5% of the assets of collective investment funds, up by 1.5 percentage points compared with 2017). (See Chart B.IV.12)

Mixed funds were managing the largest amount of assets at the end of 2018. They accounted for 43.8% of the total assets of collective investment funds (down by 3.4 percentage points). At the end of 2018, mixed funds were managing assets of CZK 140.2 billion, an increase of 0.4% compared with the end of 2017. (See Chart B.IV.13)

Despite a year-on-year decrease in their share of 3.5 percentage points to 23%, bond funds were the second largest type of collective investment fund in terms of assets managed. Their assets amounted to CZK 73.6 billion at the end of 2018, down by 11.8% from the end of 2017.

Assets of CZK 61.9 billion were being managed by equity funds at the end of 2018. This represented 19.3% of the total assets of collective investment funds.

CHART B.IV.11

INVESTMENT FUND ASSETS
Domestic investment funds
(in CZK billions; at end of period)

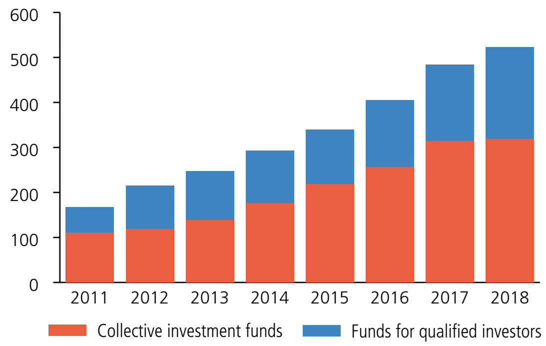


CHART B.IV.12

COLLECTIVE INVESTMENT FUND ASSETS BY MANAGER
(in %; at end of period)

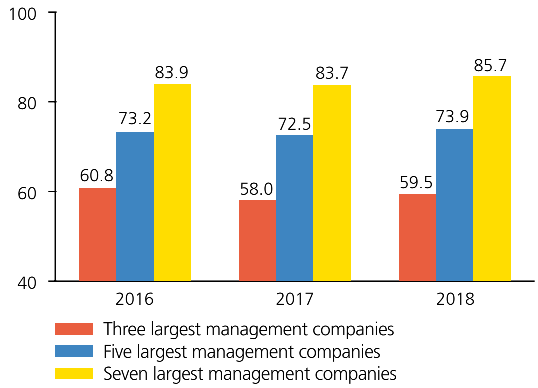


CHART B.IV.13

ASSETS BY FUND TYPE
Collective investment funds
(in CZK billions; at end of period)

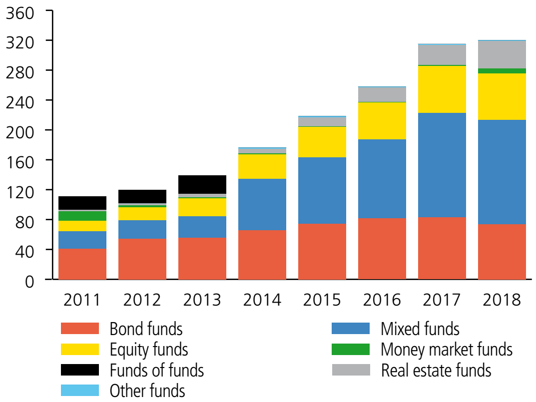


CHART B.IV.14

ASSET STRUCTURE
Collective investment funds
(in %; at end of period)

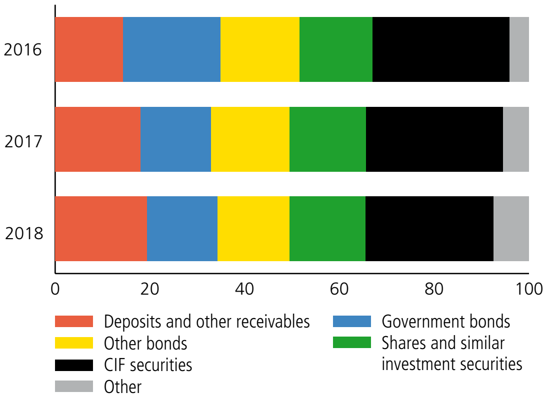
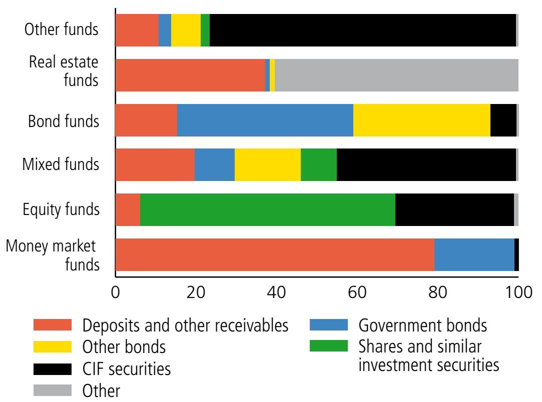


CHART B.IV.15

ASSET STRUCTURE BY FUND TYPE
Collective investment funds
(in %; as of 31 December 2018)



The remaining CZK 44.6 billion was invested in real estate funds (CZK 36.8 billion), money market funds (CZK 6.8 billion) and other funds (CZK 1 billion).

The total assets managed by domestic funds for qualified investors also increased. At the end of the year, they reported assets of CZK 202.2 billion, almost 19.7% higher than a year earlier.

4.3.4 Structure of collective investment fund assets

The largest part of the assets in collective investment funds, (30.1%) was invested in debt securities. This share of debt securities in total assets decreased by 1.4 percentage points compared with the previous year.

Government bonds accounted for 14.9% and other bonds for 15.2% of the total assets invested by collective investment funds. Investments in collective investment fund securities were another important item on the balance sheets of these funds, representing 26.9% of their total assets.

The other types of investment assets in which domestic collective investment funds allocated investor funds included deposits and other receivables, which accounted for 19.4% of total assets. Shares and similar investment securities represented 16.1% of assets. (See Chart B.IV.14)

Fund type largely determined the structure of investment assets managed by individual funds. The majority of funds in bond funds (77.6%) were invested in debt securities. The rest were in bank deposits (15.4%), collective investment fund securities (6.5%) and other assets. Collective investment fund securities were the biggest item in the portfolios of mixed funds (44.5%). They were followed by bonds (26.3%), bank deposits (19.7%) and shares (8.9%). In line with their specialism, equity funds invested above all in shares (63.2%), while the rest of their funds were placed mainly in collective investment fund securities (29.5%) and bank deposits (6.2%). Real estate funds had most of their assets invested in other types of investments, especially real estate and holdings in real estate companies (60.4%), deposits and other receivables (37.2%) and bonds (2.4%). (See Chart B.IV.15)

4.3.5 Sales and redemptions of fund units

While domestic mutual funds redeemed fund units worth CZK 67.3 billion in 2018, they issued new ones totalling CZK 90.3 billion in the same year. The balance of sales and redemptions was therefore CZK 23 billion. Real estate funds, mixed funds, equity funds and money market funds recorded positive balances, whereas the value of the units sold by bond funds was CZK 10 billion lower than the value of those redeemed. Despite the positive overall balance, net sales fell by 45.5% year on year. (See Chart B.IV.16)

CHART B.IV.16

DECOMPOSITION OF YEAR-ON-YEAR CHANGE IN ASSETS
Collective investment funds
(in CZK billions; as of 31 December 2018)

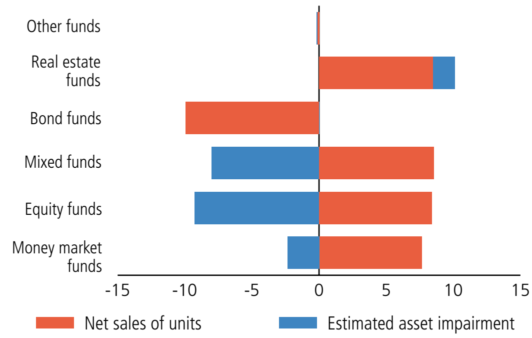
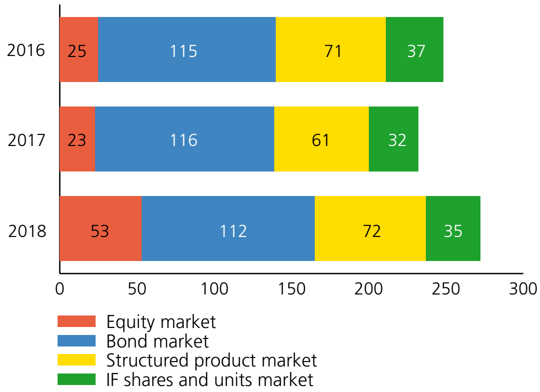


CHART B.IV.17

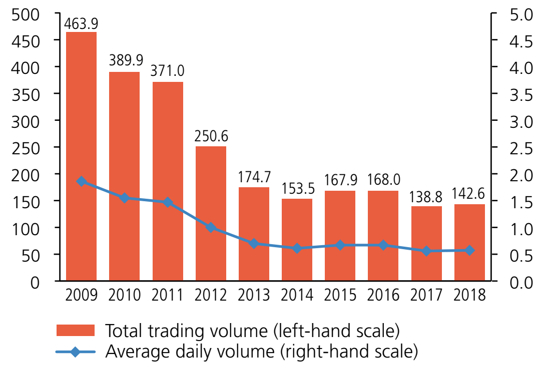
NUMBERS OF REGISTERED ISSUES ON PSE
(at end of period)



Source: PSE statistics

CHART B.IV.18

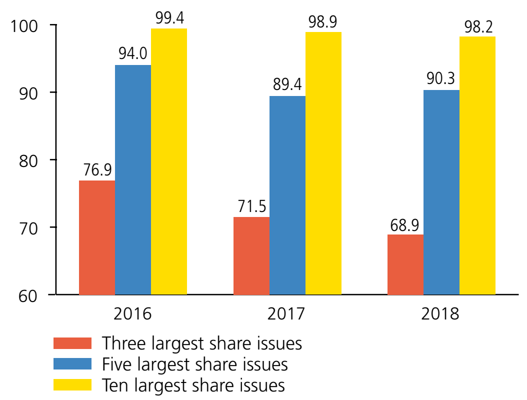
SHARE TRADING ON PSE
(in CZK billions; at end of period)



Source: PSE statistics

CHART B.IV.19

CONCENTRATION OF SHARE TRADING ON PSE
(in %; shares in total annual trading volume)



Source: PSE statistics

4.4 REGULATED MARKETS

4.4.1 Trading on the Prague Stock Exchange[142]

Trading on the PSE saw no major changes in 2018. A total of 53 issues were registered on the PSE shares and units market (32 more than at the end of 2017), of which 15 were domestic issues. This increase was due chiefly to the introduction of 32 new foreign share issues to the Free Market on 22 May 2018. At the year-end, 112 issues were being traded on the bond market, a year-on-year decline of four. As of the last day of the year, it was possible to trade in a further 72 issues on the structured product market (11 more than in 2017), of which 46 were warrants and 26 investment certificates. The other issues traded on the PSE included 36 investment fund shares and two investment fund units. (See Chart B.IV.17)

Despite the marked rise in the number of issues, the total volume of trades on the PSE stock market increased by just 2.7% year on year to CZK 142.6 billion in 2018. The most successful month was November and the weakest month – as in the previous year – was July. The average daily trading volume rose from CZK 555.5 million at the end of 2017 to CZK 572.5 million in 2018. (See Chart B.IV.18)

In 2018, ČEZ shares were the most traded issue on the PSE (CZK 40.9 billion), accounting for 28.7% of the total volume of share trades, followed by Komerční banka (CZK 33.0 billion), which increased its share of total trades on the PSE's markets by 3 percentage points to 21.6%. The third most traded issue was Moneta Money Bank (CZK 24.2 billion), whose share dropped by 2.7 percentage points year on year to 20.5%. Trading on the PSE is traditionally highly concentrated, with the three most traded share issues accounting for almost 69%, the five most traded issues for 90.3% and the ten most traded issues for almost 98.2% of the total volume of share trades. (See Chart B.IV.19)

The total market capitalisation of shares traded on the PSE rose by CZK 20 trillion to CZK 21,261.6 billion in 2018, mainly as a result of the launch of dual listing of selected foreign issues on the Free Market on 22 May 2018. The market capitalisation of the Prime Market alone, which accounted for the large majority of transactions (95.3%), fell by 15.2% year on year to CZK 1,012.6 billion. (See Chart B.IV.20)

142 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.

The increase in foreign issues was also significantly reflected in the share of domestic issues in total market capitalisation. While in 2017 domestic issues had accounted for 54.9% of total market capitalisation, in 2018 this ratio was 2.9%. The largest issues were from the Free Market, namely Nestlé (CZK 6,442.2 billion), Shell (CZK 3,558.2 billion) and Deutsche Telekom (CZK 1,795.1 billion). Among domestic issues, ČEZ was the most important in terms of market capitalisation, totalling CZK 287.9 billion.

Another innovation on the PSE in 2018 was the launch of the Start market for small companies. By the end of 2018, three companies with a total market capitalisation of CZK 2 billion and a total trading volume of CZK 20 million were being traded on this market.

The PX index – the official price index of the PSE's most liquid shares – was down by 8.5% (91.6 points) year on year at the end of 2018, in line with global financial market developments. The PX index closing quotation recorded its yearly minimum of 977.9 points on 27 December 2018 and its yearly maximum of 1,140 points on 1 February 2018. The PX-GLOB index, comprising all traded shares, moved in parallel with the PX index. (See Chart B.IV.21)

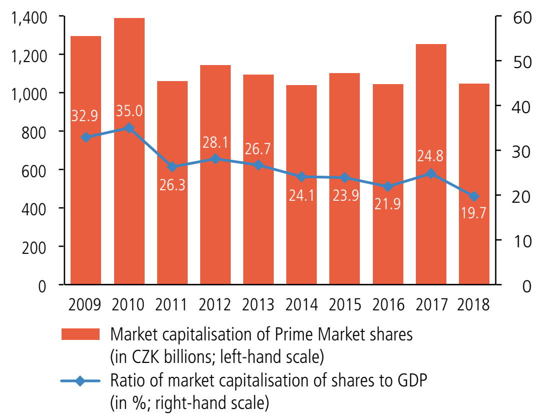
The PSE bond market recorded trades totalling CZK 9.3 billion in 2018, involving mainly corporate issues and to a limited extent also financial sector issues.

Only very small volumes were traded on the structured product market in 2018, even by comparison with the previous year. Trading in structured products fell by almost 43.2% to CZK 129 million year on year. Trading in investment fund shares and units also decreased, dropping by CZK 44.3 million to CZK 43 million in 2018.

CHART B.IV.20

MARKET CAPITALISATION OF PRIME MARKET ON PSE

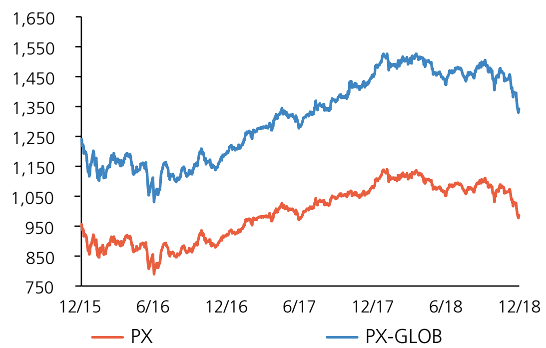
(in CZK billions; at end of period)



Source: PSE statistics and CZSO

CHART B.IV.21

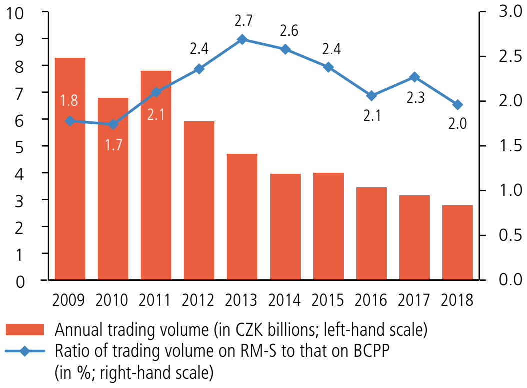
PSE PRICE INDICES



Source: PSE statistics

CHART B.IV.22

SHARE TRADING ON RM-S
(share trading volumes; all markets)



Source: RM-S statistics

CHART B.IV.23

RM INDEX

Source: RM-S statistics

4.4.2 Trading on the RM-SYSTÉM exchange[143]

Annual trading volumes on the other domestic regulated market, RM-S, continued to show a downward trend. Total share trading amounted to CZK 2.6 billion in 2018, down by 18.6% from a year earlier. (See Chart B.IV.22)

The volume of bond trades totalled CZK 3 million, representing a year-on-year decrease of 66.1%.

The RM price index fell by 17.1% year on year to 1,246 points. It recorded its minimum on 27 December 2018, when it closed at 1,241.4 points, and its maximum of 1,542 points at the very start of the year on 5 January 2018. (See Chart B.IV.23)

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

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).

Annex 1

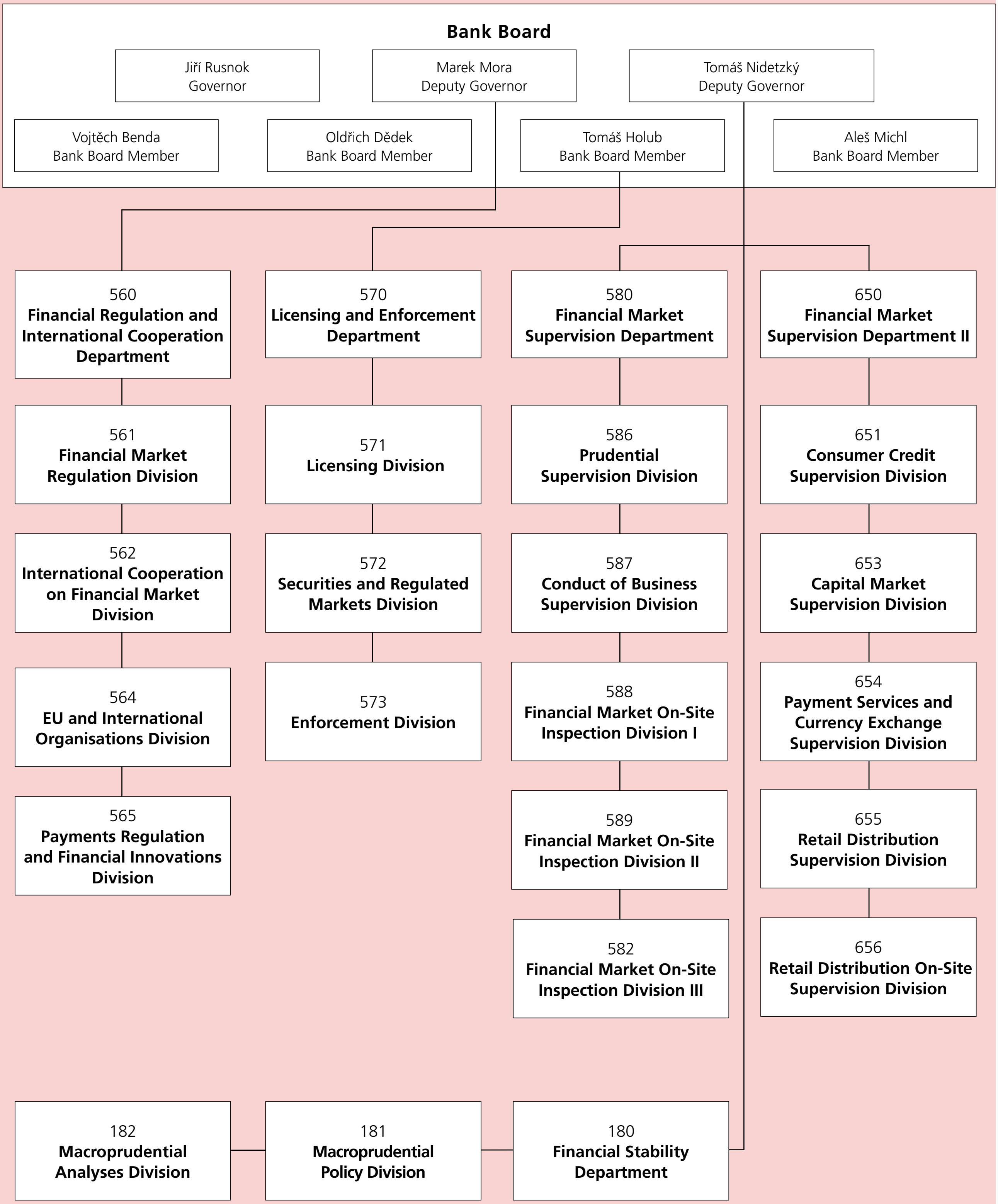
MAIN INDICATORS OF MONETARY AND ECONOMIC DEVELOPMENTS IN THE CZECH REPUBLIC

		2014	2015	2016	2017	2018
Gross domestic product	Volume (in CZK billions)[1)]	4,088.2	4,308.3	4,409.0	4,610.3	4,742.8
	Increase (in %)[2)]	2.7	5.4	2.5	4.5	2.9
Final consumption expenditure of households	Increase (in %)[2)]	1.8	3.8	3.5	4.4	3.1
Final consumption expenditure of government	Increase (in %)[2)]	1.1	1.9	2.7	1.3	3.7
Gross capital formation	Increase (in %)[2)]	8.5	13.0	-4.3	4.1	5.4
Gross fixed capital formation	Increase (in %)[2)]	3.9	10.4	-3.3	4.1	10.4
Output – percentage increase	Industry (sales)[3)]	5.0	4.3	3.4	6.5	3.2
	Construction[3)]	4.3	6.8	-5.6	3.3	9.2
Prices	Inflation rate (in %)[4)]	0.4	0.3	0.7	2.5	2.1
Unemployment	Unemployment rate (in %)[5)]	6.2	5.1	4.0	2.9	2.3
Foreign trade	Exports of goods and services (in %)[2)]	8.7	6.2	4.1	7.1	4.5
	Imports of goods and services (in %)[2)]	10.1	6.9	2.6	6.3	6.0
Average wage	Nominal (in %)[6)]	2.9	3.2	3.7	7.0	8.1
	Real (in %)[6)]	2.5	2.9	3.0	4.4	6.0
Balance of payments	Current account (in CZK billions)[7)]	7.9	11.3	74.2	83.5	15.5
Exchange rates	CZK/USD[8)]	20.8	24.6	24.4	23.4	21.7
	CZK/EUR[8)]	27.5	27.3	27.0	26.3	25.6
PRIBOR	7-day[9)]	0.17	0.16	0.14	0.24	1.09
	3-month[9)]	0.36	0.31	0.29	0.41	1.30
	6-month[9)]	0.43	0.39	0.36	0.48	1.36
Discount rate	(in %)[10)]	0.05	0.05	0.05	0.05	0.75
Lombard rate	(in %)[10)]	0.25	0.25	0.25	1.00	2.75
2W repo rate	(in %)[10)]	0.05	0.05	0.05	0.50	1.75
PX capital market index[11)]		946.7	956.3	921.6	1,078.2	986.6

Source: CZSO (macroeconomic indicators); PSE; CNB; data as of 23 May 2019
1) Constant prices of 2010, seasonally adjusted
2) Percentage increase on a year earlier in real terms, seasonally adjusted
3) Percentage increase on a year earlier in real terms
4) Growth in consumer prices in %, end of period
5) Average, age 15–64 (ILO methodology)
6) Year-on-year growth in %, converted numbers of employees
7) Current prices
8) Average daily nominal koruna exchange rates
9) Annual average from monthly average nominal interest rates on interbank deposits
10) As of 31 December of given year
11) Annual average from monthly averages

Annex 2

ORGANISATIONAL STRUCTURE OF CNB FINANCIAL MARKET SUPERVISION
as of 31 December 2018



Annex 3

BREAKDOWN OF BANKS INTO GROUPS [1)]
(as of 31 December 2018)

I. Large banks	**IV. Foreign bank branches**
1. Česká spořitelna, a.s.	1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. Československá obchodní banka, a. s.	2. Bank of China (Hungary) Close Ltd. Prague branch, odštěpný závod
3. Komerční banka, a.s.	3. Bank of Communications Co., Ltd., Prague Branch odštěpný závod
4. UniCredit Bank Czech Republic and Slovakia, a.s.	4. BNP Paribas Personal Finance SA, odštěpný závod
	5. BNP Paribas S.A., pobočka Česká republika
II. Medium-sized banks	6. Citibank Europe plc, organizační složka
1. Hypoteční banka, a.s.	7. COMMERZBANK Aktiengesellschaft, pobočka Praha
2. J & T BANKA, a.s.	8. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
3. MONETA Money Bank, a.s.	9. HSBC Bank plc - pobočka Praha
4. PPF banka a.s.	10. HSBC France - pobočka Praha
5. Raiffeisenbank a.s.	11. Industrial and Commercial Bank of China Limited, Prague Branch, odštěpný závod
	12. ING Bank N.V.
III. Small banks	13. mBank S.A., organizační složka
1. Air Bank a.s.	14. MUFG Bank (Europe) N.V. Prague Branch
2. Banka CREDITAS a.s.	15. Oberbank AG pobočka Česká republika
3. Česká exportní banka, a.s.	16. PARTNER BANK AKTIENGESELLSCHAFT, odštěpný závod
4. Českomoravská záruční a rozvojová banka, a.s.	17. PKO BP S.A., Czech Branch
5. Equa bank a.s.	18. Poštová banka, a.s., pobočka Česká republika
6. Expobank CZ a.s.	19. PRIVAT BANK der Raiffeisenlandesbank Oberösterreich Aktiengesellschaft,
7. Fio banka, a.s.	pobočka Česká republika
8. Sberbank CZ, a.s.	20. Privatbanka, a.s., pobočka Česká republika
9. Wüstenrot hypoteční banka a.s.	21. Saxo Bank A/S, organizační složka
	22. SMBC Bank EU AG Prague Branch
	23. Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch
	24. Volksbank Raiffeisenbank Nordoberpfalz eG pobočka Cheb
	25. Všeobecná úverová banka a.s., pobočka Praha
	26. Waldviertler Sparkasse Bank AG
	27. Western Union International Bank GmbH, organizační složka
	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.

1) As from 2016, banks having total assets of over 10% of the banking sector's total assets are regarded as large banks, banks having total assets of 2%–10% of the banking sector's total assets are regarded as medium-sized banks and banks having total assets of less than 2% of the banking sector's total assets are regarded as small banks. For more details see www.cnb.cz > *Supervision, regulation > Aggregate information on the financial sector > Basic indicators of the financial market > Banks > Methodology*.

Annex 4

CREDIT UNIONS
(as of 31 December 2018)

1.	Artesa, spořitelní družstvo
2.	Citfin, spořitelní družstvo
3.	České spořitelní družstvo
4.	Československé úvěrní družstvo
5.	Družstevní záložna Kredit
6.	Družstevní záložna PSD
7.	Moravský Peněžní Ústav – spořitelní družstvo
8.	NEY spořitelní družstvo
9.	Peněžní dům, spořitelní družstvo
10.	Podnikatelská družstevní záložna

Annex 5

PENSION MANAGEMENT COMPANIES
(as of 31 December 2018)

1.	Allianz penzijní společnost, a.s.
2.	AXA penzijní společnost a.s.
3.	Conseq penzijní společnost, a.s.
4.	Česká spořitelna – penzijní společnost, a.s.
5.	ČSOB Penzijní společnost, a. s., člen skupiny ČSOB
6.	KB Penzijní společnost, a.s.
7.	NN Penzijní společnost, a.s.
8.	Penzijní společnost České pojišťovny, a.s.

Annex 6

MANAGEMENT COMPANIES
(as of 31 December 2018)

1.	AKRO investiční společnost, a.s.
2.	AMISTA investiční společnost, a.s.
3.	AMISTA Trust Funds, investiční společnost, a.s.
4.	Amundi Czech Republic, investiční společnost, a.s.
5.	APRIN investiční společnost a.s.
6.	Art of Finance investiční společnost, a.s.
7.	AVANT investiční společnost, a.s.
8.	AXA investiční společnost a.s.
9.	CARDUUS Asset Management, investiční společnost, a.s.
10.	CODYA investiční společnost, a.s.
11.	Conseq Funds investiční společnost, a.s.
12.	ČSOB Asset Management, a.s., investiční společnost
13.	DELTA Investiční společnost, a.s.
14.	Erste Asset Management GmbH, pobočka Česká republika
15.	Fio investiční společnost, a.s.
16.	Generali Investments CEE, investiční společnost, a.s.
17.	INVESTIKA, investiční společnost, a.s.
18.	Jet Investment, a.s.
19.	J&T INVESTIČNÍ SPOLEČNOST, a.s.
20.	Partners investiční společnost, a.s.
21.	Patria investiční společnost, a.s.
22.	PROSPERITA investiční společnost, a.s.
23.	Proton investiční společnost, a.s.
24.	QI investiční společnost, a.s.
25.	Raiffeisen investiční společnost a.s.
26.	REDSIDE investiční společnost, a.s.
27.	REICO investiční společnost České spořitelny, a.s.
28.	RSJ Investments investiční společnost a.s.
29.	TESLA investiční společnost, a.s.
30.	WOOD & Company investiční společnost, a.s.
31.	ZFP Investments, investiční společnost, a.s.

Annex 7

INSURANCE UNDERTAKINGS AND BRANCHES OF FOREIGN INSURANCE UNDERTAKINGS
(as of 31 December 2018)

	I. Life insurance undertakings and branches of foreign insurance undertakings		**III. Mixed life and non-life insurance undertakings**
1.	AEGON Pojišťovna, a.s.	1.	Allianz pojišťovna, a.s.
2.	ASPECTA Assurance International AG, pobočka pro Českou republiku	2.	AXA životní pojišťovna a.s.
3.	Basler Lebensversicherungs-Aktiengesellschaft, pobočka pro Českou republiku	3.	BNP Paribas Cardif Pojišťovna, a.s.
	MetLife Europe d.a.c., pobočka pro Českou republiku	4.	Česká podnikatelská pojišťovna, a.s., Vienna Insurance Group
4.	NN Životná poisťovňa, a.s., pobočka pro Českou republiku	5.	Česká pojišťovna a.s.
5.	NN Životní pojišťovna N.V., pobočka pro Českou republiku	6.	ČSOB Pojišťovna, a. s., člen holdingu ČSOB
6.	NOVIS Poisťovňa a.s., odštěpný závod	7.	ERGO pojišťovna, a.s.
7.	NOVIS Poisťovňa a.s., odštěpný závod	8.	Generali Pojišťovna a.s.
		9.	Hasičská vzájemná pojišťovna, a.s.
	II. Non-life undertakings and branches of foreign insurance undertakings	10.	Komerční pojišťovna, a.s.
		11.	Kooperativa pojišťovna, a.s., Vienna Insurance Group
1.	AEGON Hungary Closed Company Ltd., organizační složka	12.	MAXIMA pojišťovna, a.s.
2.	Atradius Crédito y Caución S.A. de Seguros y Reaseguros, pobočka pro Českou republiku	13.	Pojišťovna České spořitelny, a.s., Vienna Insurance Group
		14.	UNIQA pojišťovna, a.s.
3.	AWP P&C Česká republika - odštěpný závod zahraniční právnické osoby		
4.	AXA pojišťovna a.s.		
5.	Basler Sachversicherungs – Aktiengesellschaft, pobočka pro Českou republiku		
6.	Chubb European Group SE, organizační složka		
7.	Colonnade Insurance S.A., organizační složka		
8.	COMPAGNIE FRANCAISE D´ ASSURANCE POUR LE COMMERCE EXTERIEUR organizační složka Česko		
9.	Credendo – Short-Term EU Risks úvěrová pojišťovna, a.s.		
10.	Česká kancelář pojistitelů [1]		
11.	Česká pojišťovna ZDRAVÍ a.s.		
12.	D.A.S. Rechtsschutz AG, pobočka pro ČR		
13.	Direct pojišťovna, a.s.		
14.	ERV Evropská pojišťovna, a. s.		
15.	EULER HERMES SA, organizační složka		
16.	Exportní garanční a pojišťovací společnost, a.s. [1]		
17.	HALALI, všeobecná pojišťovna,a.s.		
18.	HDI Versicherung AG, organizační složka		
19.	INTER PARTNER ASSISTANCE, organizační složka		
20.	MetLife Europe Insurance d.a.c., pobočka pro Českou republiku		
21.	Österreichische Hagelversicherung – Versicherungsverein auf Gegenseitigkeit, Agra pojišťovna, organizační složka		
22.	Pojišťovna VZP, a.s.		
23.	PRVNÍ KLUBOVÁ pojišťovna a.s.		
24.	Servisní pojišťovna a.s.		
25.	Slavia pojišťovna a.s.		
26.	Union poisťovňa, a.s., pobočka pro Českou republiku		
27.	Vitalitas pojišťovna, a.s.		

1) The Czech Insurers' Bureau (CIB) and Exportní garanční a pojišťovací společnost, a.s. (EGAP) are not included in the analyses in Part B of this report.

Annex 8

LICENSED INVESTMENT FIRMS
(as of 31 December 2018)

I. Investment firms – banks

1. Air Bank a.s.
2. Banka CREDITAS a.s.
3. Česká exportní banka, a.s.
4. Česká spořitelna, a.s.
5. Českomoravská záruční a rozvojová banka, a.s.
6. Československá obchodní banka, a. s.
7. Equa bank, a.s.
8. Expobank CZ a.s.
9. Fio banka, a.s.
10. J & T BANKA, a.s.
11. Komerční banka, a.s.
12. MONETA Money Bank, a.s.
13. PPF banka a.s.
14. Raiffeisenbank a.s.
15. Sberbank CZ, a.s.
16. UniCredit Bank Czech Republic and Slovakia, a.s.

II. Investment firms – non-banks

1. 42 Financial Services a.s.
2. Accredio, a.s.
3. AKCENTA CZ a.s.
4. Amundi Czech Republic Asset Management, a.s.
5. ATLANTA SAFE, a.s.
6. ATLANTIK finanční trhy, a.s.
7. BH Securities a.s.
8. Citfin - Finanční trhy, a.s.
9. Colosseum, a.s.
10. Conseq Investment Management, a.s.
11. CYRRUS, a.s.
12. CYRRUS CORPORATE FINANCE, a.s.
13. EFEKTA obchodník s cennými papíry a.s.
14. HighSky Brokers, a.s.
15. NN Investment Partners C.R., a.s.
16. Patria Finance, a.s.
17. Prague Wealth Management, s.r.o.
18. Roklen360 a.s.
19. RSJ Custody s.r.o.
20. RSJ Securities a.s.
21. WOOD & Company Financial Services, a.s.

III. Investment firms – branches (organisational units) of foreign banks

1. Bank Gutmann Aktiengesellschaft, pobočka Česká republika
2. BNP Paribas S.A., pobočka Česká republika
3. Citibank Europe plc, organizační složka
4. COMMERZBANK Aktiengesellschaft, pobočka Praha
5. Deutsche Bank Aktiengesellschaft Filiale Prag, organizační složka
6. HSBC Bank plc - pobočka Praha
7. ING Bank N.V.
8. mBank S.A., organizační složka
9. MUFG Bank (Europe) N.V. Prague Branch
10. Oberbank AG pobočka Česká republika
11. PARTNER BANK AKTIENGESELLSCHAFT, odštěpný závod
12. Privatbanka, a.s., pobočka Česká republika
13. Saxo Bank A/S, organizační složka
14. Všeobecná úverová banka a.s., pobočka Praha; zkráceně: VUB, a.s., pobočka Praha
15. Western Union International Bank GmbH, organizační složka

IV. Investment firms – branches (organisational units) of foreign non-bank investment firms

1. Admiral Markets UK LTD odštěpný závod zahraniční právnické osoby
2. AISA Direct Ltd, pobočka
3. Bernstein Financial Services GmbH
4. CAPITAL MARKETS, o.c.p.,a.s. – odštěpný závod
5. Catus AG Vermögensverwaltung
6. COVERDEAL HOLDINGS LIMITED, odštěpný závod
7. Depaho Ltd pobočka
8. Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna, organizační složka Česká republika
9. eBrókerház Befektetési Szolgáltató Zártkörűen Működő Részvénytársaság
10. European Investment Centre, o.c.p., a.s. – organizační složka
11. GKFX Financial Services Limited
12. Goldenburg Group Limited
13. LaSalle Investment Management, organizační složka
14. Leadcapital Markets Ltd
15. L.F. INVESTMENT LIMITED pob
16. Lynx B.V., organizační složka
17. Monecor (London) Ltd
18. Naga Markets Ltd pobočka
19. Notesco Financial Services Limited pobočka
20. Nuntius Brokerage and Investment Services S.A. pobočka
21. OX CAPITAL MARKETS LTD pobočka
22. Phoenix Asset Risk Management AG – odštěpný závod
23. R Capital Solutions Ltd
24. RELIANTCO INVESTMENTS LTD, organizační složka
25. SPOT CAPITAL MARKETS LTD pobočka
26. TF Global Markets (UK) Limited pobočka
27. X-TRADE BROKERS DOM MAKLERSKI SPÓŁKA AKCYJNA, organizační složka

Annex 8

LICENSED INVESTMENT FIRMS – (continued)
(as of 31 December 2018)

	V. Investment companies carrying on asset management
1.	Amundi Czech Republic, investiční společnost, a.s.
2.	AXA investiční společnost a.s.
3.	CARDUUS Asset Management, investiční společnost, a.s.
4.	ČSOB Asset Management, a.s., investiční společnost
5.	Erste Asset Management GmbH, pobočka Česká republika
6.	Generali Investments CEE, investiční společnost, a.s.
7.	Partners investiční společnost, a.s.
8.	WOOD & Company investiční společnost, a.s.
9.	ZFP Investments, investiční společnost, a.s.

Annex 9

(BASE) BOND PROSPECTUSES AND SUPPLEMENTS THERETO IN 2018

Issuer	Document type	Decision date	Decision
Czech-Moravian Properties a.s.	Base prospectus	09 January 2018	Agreed
UNICAPITAL Invest II a.s.	Base prospectus	12 January 2018	Agreed
Equa bank a.s.	Prospectus	31 January 2018	Agreed
RED Thirteen s.r.o.	Prospectus	16 February 2018	Agreed
GEEN Development a.s.	Base prospectus	22 February 2018	Agreed
J&T ENERGY FINANCING CZK I, a.s.	Prospectus	27 February 2018	Agreed
J&T ENERGY FINANCING CZK II, a.s.	Prospectus	27 February 2018	Agreed
EMTC - Czech a.s.	Base prospectus	06 March 2018	Agreed
AAW X Spółka z ograniczoną odpowiedzialnością	Prospectus	24 March 2018	Agreed
EMTC - Czech a.s.	Supplement to prospectus	30 March 2018	Agreed
Europa Investment Property CZ a.s.	Base prospectus	05 April 2018	Agreed
STAY HOME a.s.	Prospectus	19 April 2018	Agreed
SOLEK HOLDING SE	Prospectus	20 April 2018	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Base prospectus	20 April 2018	Agreed
Wüstenrot hypoteční banka a.s.	Base prospectus	25 April 2018	Agreed
FINEP Hloubětín a.s.	Prospectus	30 May 2018	Agreed
Saunia, s.r.o.	Prospectus	30 May 2018	Agreed
UNICAPITAL Invest II a.s.	Supplement to prospectus	07 June 2018	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Base prospectus	13 June 2018	Agreed
DEKINVEST podfond Alfa	Prospectus	23 June 2018	Agreed
MONETA Money Bank a.s.	Base prospectus	26 June 2018	Agreed
e-Finance, a.s.	Base prospectus	29 June 2018	Agreed
C2H Financial s.r.o.	Base prospectus	30 June 2018	Agreed
NET4GAS, s.r.o.	Prospectus	05 July 2018	Agreed
ČD Cargo, a.s.	Prospectus	10 July 2018	Agreed
Garanční systém finančního trhu	Base prospectus	10 July 2018	Agreed
EPH Financing CZ, a.s.	Prospectus	12 July 2018	Agreed
Hypoteční banka, a.s.	Base prospectus	19 July 2018	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Supplement to prospectus	20 July 2018	Agreed
C2H Financial s.r.o.	Supplement to prospectus	03 August 2018	Agreed
PPF Financial Holdings B.V.	Prospectus	09 August 2018	Agreed
Aquila Real Asset Finance a.s.	Prospectus	14 August 2018	Agreed
DELTA Investiční společnost, a.s. (RM OPF)	Base prospectus	31 August 2018	Agreed
DRFG Telco Financial Management a.s.	Base prospectus	06 September 2018	Agreed
Liberty One Methanol LLC	Prospectus	25 September 2018	Agreed
KR REAL s.r.o.	Base prospectus	26 September 2018	Agreed
APS Finance a.s.	Prospectus	27 September 2018	Agreed
REDSTONE INVEST a.s.	Base prospectus	28 September 2018	Agreed
J&T SECURITIES MANAGEMENT PLC	Prospectus	02 October 2018	Agreed
J&T ENERGY FINANCING CZK III, a.s.	Prospectus	10 October 2018	Agreed
Czech-Moravian Properties a.s.	Supplement to prospectus	13 October 2018	Agreed
Beach Resorts Investment Ltd.	Prospectus	13 October 2018	Agreed
RN Solutions a.s.	Prospectus	19 October 2018	Agreed
IPM Czech Republic s.r.o.	Base prospectus	24 October 2018	Agreed
Equa bank a.s.	Base prospectus	25 October 2018	Agreed

Annex 9

(BASE) BOND PROSPECTUSES AND SUPPLEMENTS THERETO IN 2018 – (continued)

Issuer	Document type	Decision date	Decision
Československá obchodní banka, a.s.	Base prospectus	27 October 2018	Agreed
M & M Reality Invest a.s.	Prospectus	10 November 2018	Agreed
Českomoravská Projektová a.s.	Base prospectus	15 November 2018	Agreed
Trigema Real Estate Finance a.s	Base prospectus	21 November 2018	Agreed
Saunia, s.r.o.	Supplement to prospectus	23 November 2018	Agreed
TD Gama s.r.o.	Prospectus	24 November 2018	Agreed
NWD Group a.s.	Base prospectus	04 December 2018	Agreed
Major Credit a.s.	Prospectus	13 December 2018	Agreed
Trianon Building Prague s.r.o.	Prospectus	18 December 2018	Agreed
J&T Global Finance X., s.r.o.	Prospectus	28 December 2018	Agreed

Annex 10

SHARE PROSPECTUSES AND SUPPLEMENTS THERETO IN 2018

Issuer	Purpose of prospectus	Decision date	Decision
Primoco UAV SE	Public offering (START)	27 April 2018	Agreed
Prabos Plus a.s.	Public offering (START)	28 April 2018	Agreed
FILLAMENTUM a.s.	Public offering (START)	28 April 2018	Agreed
HUB VENTURES a.s.	Public offering (START)	09 June 2018	Agreed
Prabos Plus a.s.	Public offering (START)	13 June 2018	Agreed
Primoco UAV SE	Public offering (START)	14 September 2018	Agreed
UDI CEE a.s.	Public offering (START)	15 September 2018	Agreed
AtomTrace a.s.	Public offering (START)	10 November 2018	Agreed

Annex 11

(BASE) PROSPECTUSES OF OTHER SECURITIES AND SUPPLEMENTS THERETO IN 2018

Issuer	Document type	Type of security	Decision date	Decision
Československá obchodní banka, a.s.	Supplement to prospectus	Investment certificate	15 May 2018	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Prospectus	Investment certificate	28 August 2018	Agreed
Československá obchodní banka, a.s.	Base prospectus	Investment certificate	14 September 2018	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Base prospectus	Investment certificate	26 November 2018	Agreed

Annex 12

TAKEOVER BIDS, PUBLIC CONTRACT OFFERS AND COMPULSORY PURCHASES IN 2018

Proposer	Target company	Type of transaction	Decision date	Decision
PKN Orlen S.A.	UNIPETROL, a.s.	Squeeze-out	21 June 2018	Agreed
Hlavní město Praha	Pražské služby, a.s.	Squeeze-out	21 September 2018	Agreed

Annex 13

LICENSING DECISIONS IN THE MARKET INFRASTRUCTURE AND EMIR AREA IN 2018

Regulated entity	Subject of proceedings	Decision date	Decision
Burza cenných papírů Praha, a.s.	Granting of waiver of obligation set out in Article 3(1) of MiFIR	16 March 2018	Agreed
Raiffeisenbank a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	04 April 2018	Agreed
Burza cenných papírů Praha, a.s.	Suspension of use of waiver under Article 4 of MiFIR	05 May 2018	n/a
Centrální depozitář cenných papírů, a.s.	Consent to change of rules of settlement system with settlement finality	29 July 2017	Agreed
Burza cenných papírů Praha, a.s.	Suspension of use of waiver under Article 4 of MiFIR	01 July 2018	n/a
Česká pojišťovna, a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	12 July 2018	Agreed
Generali Pojišťovna, a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	12 July 2018	Agreed
42 Financial Services a.s	Expansion of activities (operation of organised trading facility)	17 August 2018	Agreed
42 Financial Services a.s.	Authorisation of deferred publication of post-trade information	17 August 2018	Agreed
UniCredit Bank Czech Republic and Slovakia, a.s.	Exemption from collateral exchange requirement under Article 11(3) of EMIR	30 September 2018	Agreed
Burza cenných papírů Praha, a.s.	Suspension of use of waiver under Article 4 of MiFIR	19 October 2018	n/a
Czech Financial Benchmark Facility, s.r.o.	Authorisation for activity of benchmark administrator	11 December 2018	Agreed
Centrální depozitář cenných papírů, a.s.	Authorisation for activity of central depository pursuant to CSDR	21 December 2018	Agreed

Annex 14

STATISTICS ON ADMINISTRATIVE PENALTY PROCEEDINGS CONDUCTED IN 2018

Area of imposition of penalty	No. of administrative penalty proceedings continuing from 2017	No. of administrative penalty proceedings opened in 2018	No. of administrative penalty proceedings closed in 2018	Total fines imposed (in CZK thousands)
Supervision of credit institutions	0	10	4	3,000
Insurance market supervision	6	33	34	2,250
Capital market supervision	18	32	31	10,195
Violation of the Bureau-de-change Act	9	21	25	2,400
Consumer protection	2	0	1	2,800
Payment system	2	69	50	1,800
Circulation of banknotes and coins	2	10	9	1,295
Act on the CNB	0	1	1	500
Consumer credit	2	21	17	4475
Act on Certain Measures against Money Laundering and Terrorist Financing	0	3	3	550
Financial market supervision, total	41	200	175	29,265

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LIST OF CHARTS – PART B

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ABBREVIATIONS

ACER	Agency for the Cooperation of Energy Regulators
AIF	alternative investment fund
AIFMD	Alternative Investment Fund Managers Directive
AMA	Advanced Measurement Approaches
AMC	asset management company
AMCIF	Act on Management Companies and Investment Funds
AML/CFT	anti-money laundering/combating the financing of terrorism
AMM	additional liquidity monitoring metrics
ATC	Advisory Technical Committee
AWG	Analysis Working Group
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BMR	Benchmark Regulation
BRRD	Bank Recovery and Resolution Directive
BS	banking sector
CCR	Central Credit Register
CET1	Common Equity Tier 1
CFD	contract for difference
CIB	Czech Insurers' Bureau
CIF	collective investment fund
CRA	credit risk adjustment
CRD IV	fourth Capital Requirements Directive
CRR	Capital Requirements Regulation
CSDP	Central Securities Depository Prague
CSDR	Central Securities Depositories Regulation
CU	credit union
DGSD	Directive on Deposit Guarantee Schemes
DLT	distributed ledger technology
DSTI	debt service-to-income
DTI	debt-to-income ratio
EBA	European Banking Authority
EC	European Communities
ECAI	external credit assessment institution
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EDIS	European Deposit Insurance Scheme

EEA	European Economic Area
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	European Market Infrastructure Regulation
ERC	European Regional Committee
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FATF	Financial Action Task Force on Money Laundering
FAU	Financial Analytical Unit of the Ministry of Finance of the Czech Republic
FinTech	financial technology
FIRDS	Financial Instruments Reference Data System
FITRS	Financial Instruments Transparency System
FSC (ECB)	Financial Stability Committee (ECB)
FSC (EU)	Financial Services Committee (EU)
GDP	gross domestic product
GDPR	General Data Protection Regulation
GEMC	Growth and Emerging Markets Committee
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
ICO	initial coin offering
IDD	Insurance Distribution Directive
IF	investment firm
IFRS	International Financial Reporting Standards
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
IRB	internal ratings based approach
IRRBB	interest rate risk in the banking book
IWG	Instruments Working Group
KID	key information document
LCR	liquidity coverage ratio
LTV	loan-to-value
MAR	Market Abuse Regulation
MCD	Mortgage Credit Directive
MCR	minimum capital requirement
MiFID	Markets in Financial Instruments Directive

MiFIR	Markets in Financial Instruments Regulation
MIPC	Market Infrastructure and Payments Committee
MMFR	Money Market Funds Regulation
MMoU	Multilateral Memorandum of Understanding
MREL	minimum requirement for own funds and eligible liabilities
NPL	non-performing loan
OTC	over-the-counter
PAD	Payment Accounts Directive
PEPP	pan-European personal pension product
PMC	pension management company
PRIIPs	packaged retail and insurance-based investment products
PSD	Payment Services Directive
PSE	Prague Stock Exchange
PXE	Power Exchange Central Europe, a.s.
Q&A	questions and answers
RM-S	RM-SYSTÉM, česká burza cenných papírů a.s.
SCR	solvency capital requirement
SICAV	société d'investissement à capital variable
SKD	Short-term Bond System
SME	small and medium-sized enterprise
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRMR	Single Resolution Mechanism Regulation
SRP	supervisory review process
SSR	Regulation on Short Selling and Certain Aspects of Credit Default Swaps
STS	simple, transparent and standardized
T2S	TARGET2-Securities
TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
TF	transformed fund
TIPS	Target Instant Payment System
TREM	Transaction Reporting Exchange Mechanism
UCITS	undertaking for collective investment in transferable securities
VaR	value at risk

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