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Česká národní banka
2017

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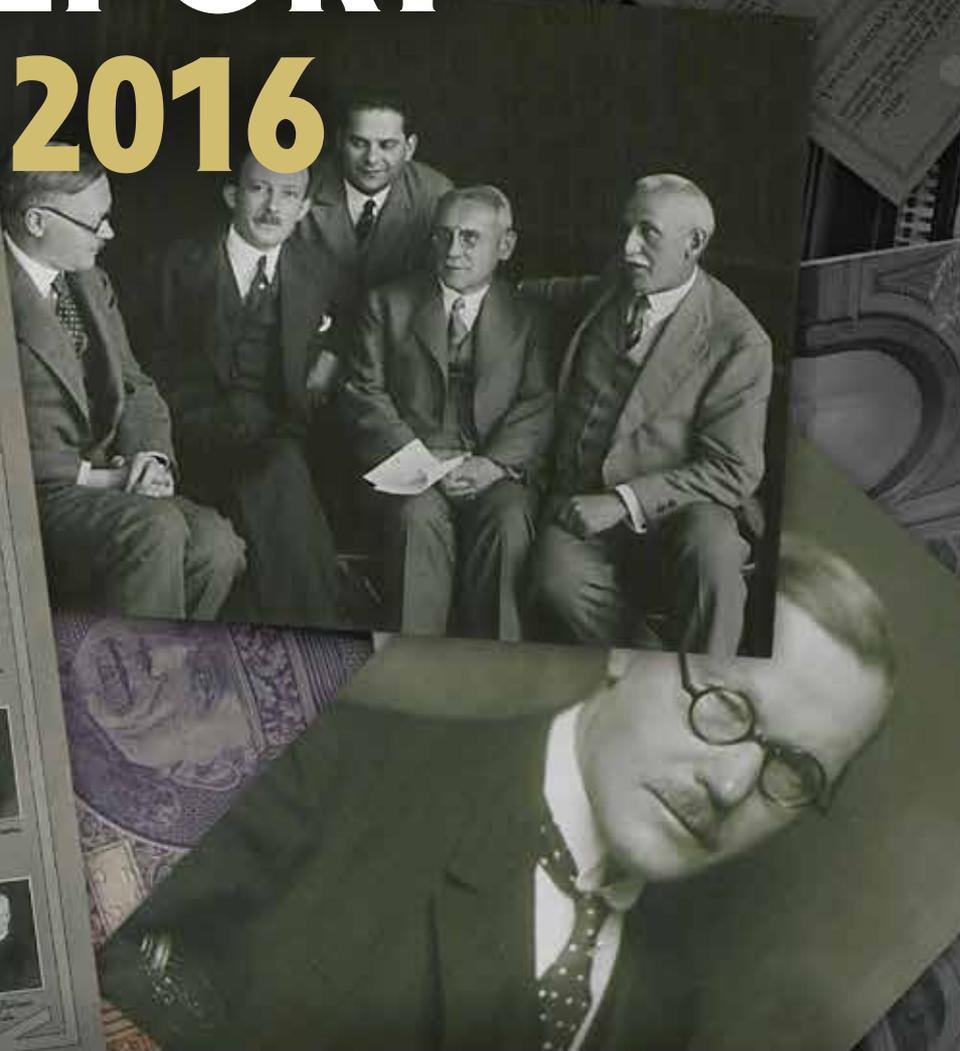
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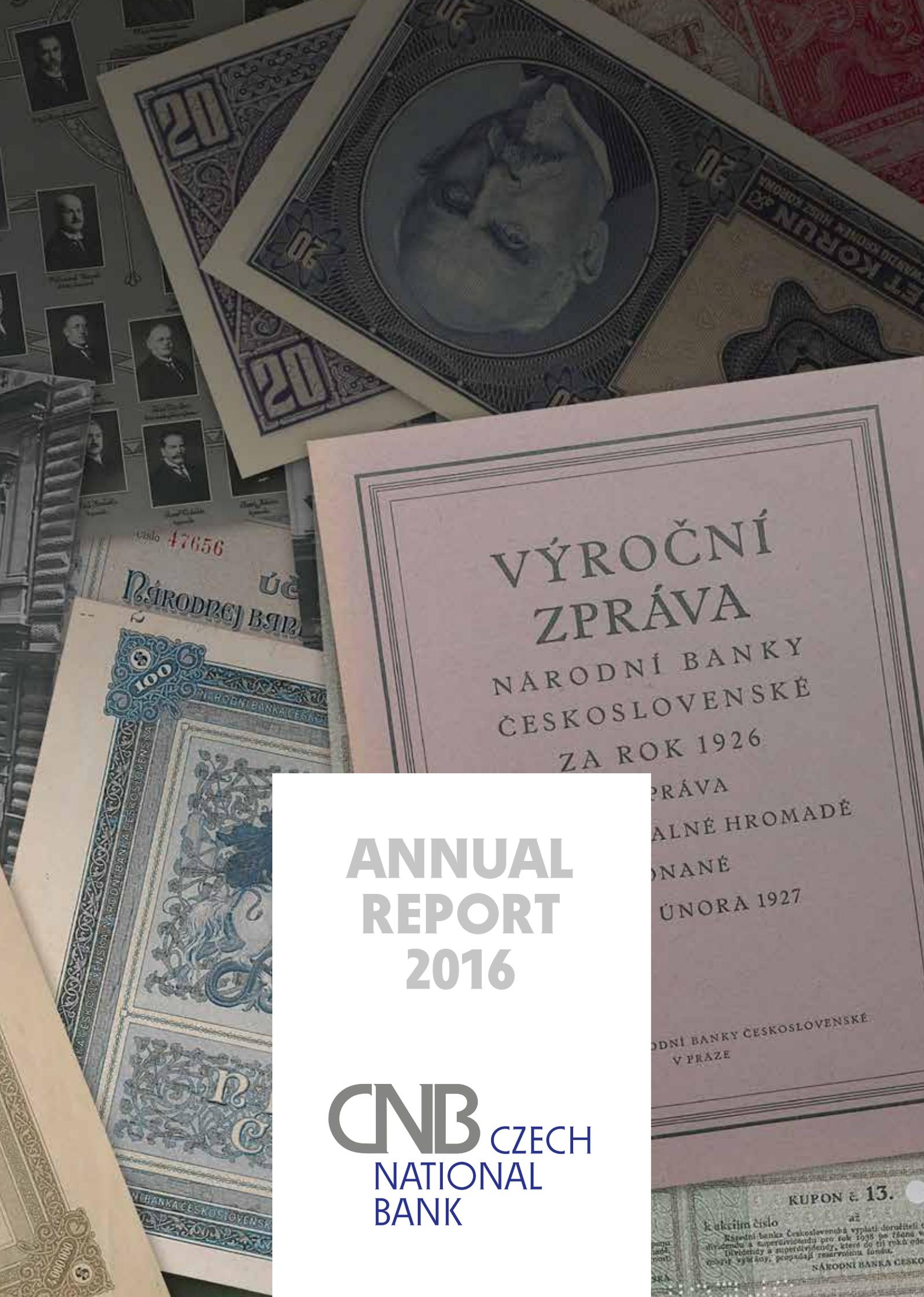
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ANNUAL REPORT 2016



CNB CZECH
NATIONAL
BANK



ANNUAL REPORT 2016

CNB CZECH
NATIONAL
BANK

VÝROČNÍ
ZPRÁVA
NÁRODNÍ BANKY
ČESKOSLOVENSKÉ
ZA ROK 1926
PRAHA
NÁRODNÍ HROMADĚ
DANĚ
ÚNORA 1927
NÁRODNÍ BANKY ČESKOSLOVENSKÉ
V PRAZE

KUPON č. 13.
K jakému číslu
až
Národní banka Československá vyplatí doručiteli
dividendu a superdividendy pro rok 1938 ve třech
dávkách a superdividendy, které do tří roků
čísly vyřadí, propadají rezervnímu fondu.
NÁRODNÍ BANKA ČESKO

ISBN 978-80-87225-70-7

MANDATE OF THE CZECH NATIONAL BANK

- **to maintain price stability,**
 - **to maintain financial stability and see to the sound operation of the financial system in the Czech Republic,**
 - **to issue banknotes and coins, manage the circulation of currency and administer clearing between banks,**
 - **to supervise the entities operating on the financial market.**
- Through *monetary policy* we seek to preserve price stability, i.e. low and stable inflation. Through *macroprudential policy* we foster financial stability and resilience of the financial system, which are necessary conditions for the maintenance of price stability. Through the joint action of monetary policy and macroprudential policy, we contribute to maintaining confidence in the value of the Czech koruna and safeguarding the stability of the macroeconomic environment.
 - By *supervising the financial market and creating prudential rules and rules of conduct towards clients* we protect the clients of persons and institutions carrying on business on the financial market.
 - By *managing the interbank payment system and issuing banknotes and coins* we ensure smooth payments and cash circulation.
 - As the *bank of the state*, we provide banking services to the state and the public sector.
 - In line with our primary objective, we *manage international reserves with professional care*.
 - We are a *part of the European System of Central Banks* and contribute to the fulfilment of the ESCB's objectives and tasks.

■ WHAT WE BUILD ON

■ INDEPENDENCE

Broad independence of the central bank is a key condition for successful implementation of monetary policy, i.e. for sustained non-inflationary growth of the economy, as well as for objective supervision of the financial market.

■ OPENNESS AND CREDIBILITY

A high degree of independence must go hand in hand with a high degree of accountability to the public for fulfilling our objectives. We inform the public and their elected representatives regularly and openly about our objectives and their fulfilment and about our opinions, plans and predictions. This makes our actions comprehensible, predictable and therefore credible.

■ PROFICIENCY

Proficient and competent employees are vital if the CNB is to succeed in enhancing its reputation as a credible and open institution at home and on the international stage.

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THE YEAR AT A GLANCE

- In 2016 monetary policy operated in an environment of continued – albeit slowing – growth of the domestic economy and increasing tightness in the labour market. Domestic inflation pressures visibly strengthened amid rising nominal wage growth. For most of the year, however, inflation was well below the inflation target, or below the lower boundary of the tolerance band around the target, owing to only slowly abating deflation abroad. At the very end of the year, though, it rose rapidly, and in December it reached the CNB's 2% target after having spent four years below it.
- In line with the continuing use of the exchange rate as a monetary policy instrument, monetary policy interest rates remained at technical zero and the exchange rate of the koruna was only just above CZK 27 to the euro. The CNB maintained its exchange rate commitment through automatic purchases of euro on the foreign exchange market.
- At its February meeting, the Bank Board stated that it would not end the exchange rate commitment before 2017 and that the commitment was likely to be discontinued in the middle of that year. At its September meeting, the Bank Board prolonged the commitment, stating that the CNB would not discontinue it before the second quarter of 2017.
- As the twelfth *Financial Stability Report*, published on 14 June, concluded, the Czech financial sector's resilience to potential adverse shocks strengthened further. However, the cyclical risks to future financial stability increased and the CNB responded by applying macroprudential policy tools.
- After the new Consumer Credit Act took effect on 1 December 2016, the CNB gradually started supervising the entire consumer credit market, including non-bank companies, which are now required to obtain authorisation (a licence) from the CNB to carry on their business. In this context, the CNB started the process of licensing non-bank providers, which must meet certain conditions relating, for example, to trustworthiness, professional qualifications and initial capital, and comply with other business requirements to obtain a licence.
- With effect from 1 July, the President of the Czech Republic appointed Jiří Rusnok as CNB Governor and Vojtěch Benda and Tomáš Nidetzký as new members of the CNB Bank Board. The terms of office of Miroslav Singer and Kamil Janáček ended on 30 June.
- A new Supervision Department II was established on 1 July. The department is responsible for carrying out the CNB's new activities under the Consumer Credit Act and other work previously performed by stand-alone departments – the Consumer Protection Department and the Retail Distribution Supervision Department – and by the Financial Market Supervision Division (LSIIs) of the Financial Market Supervision Department. These were abolished on 30 June.
- As of 20 October, the Licensing and Enforcement Department was given a new power to publish the schedule of fees for providing information at the CNB under the Freedom of Information Act.
- The Economic Research Department was abolished on 31 December. Its work was divided and transferred to the Monetary Department and the Financial Stability Department on 1 January 2017. The change was aimed at strengthening the link between research and the central bank's core activities while maintaining the professional quality of research publications.
- In their *Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area*, the CNB and the Ministry of Finance recommended that the Czech government should not set a target date for adopting the euro and thus should not attempt to enter ERM II during 2017.



GOVERNOR'S FOREWORD



The Czech economy grew for the third consecutive year in 2016. However, the growth rate was about one-half of that recorded in the previous year, due mainly to significantly restrictive fiscal policy affected by drawdown of EU funds. By contrast, still easy monetary conditions – stemming from policy rates being held at technical zero and from continuing use of the exchange rate as a monetary policy instrument – fostered higher growth. In terms of demand, the main growth factors were household consumption and external demand. The fast growth in household consumption was driven by consumer optimism, growth in total employment, exceptionally low and constantly falling unemployment – the lowest in Europe – and rising wage growth. The labour market even began to show signs of overheating, a situation we last saw before the financial crisis. The Czech economy was fully utilising its production capacity in 2016.

Despite the labour market exerting upward pressure on wages, headline inflation remained well below the inflation target and below the lower boundary of tolerance band around the target for most of the year. Inflation started to rise only in the last two months, due to growth in food prices, strengthening domestic demand pressures and weakening external disinflation pressures. In December, inflation reached our 2% target, which it last attained four years ago.

In 2016, the CNB continued to maintain its November 2013 commitment not to let the koruna appreciate beyond CZK 27 to the euro. It did so by means of automatic purchases of euro on the foreign exchange market throughout the year with the exception of March. The use of the exchange rate as an instrument for easing monetary policy was the main reason for the relatively rapid growth in international reserves. At the year-end, the reserves totalled more than EUR 81 billion, representing almost 47% of GDP. At its February meeting, the Bank Board stated that it would not end the exchange rate commitment before 2017. At its September meeting, the Bank Board prolonged the commitment, stating that the CNB would not discontinue it before the second quarter of 2017.

As regards financial stability, the banking sector's already high resilience to potential adverse shocks strengthened further in 2016. This was repeatedly confirmed by the results of stress tests. The growing resilience was due mainly to an increase in capital adequacy, favourable liquidity developments and positive changes in risk management by financial institutions. However, the cyclical risks increased, mainly because of a recovery in demand for loans, an easing of credit standards and growth in property prices. Back in 2014, the CNB introduced a requirement for all banks in the Czech Republic to create a capital conservation buffer (CCB) equal to 2.5% of their common equity and set a systemic risk buffer for the four systemically most important banks so as to prevent risks to financial stability. The first regular review of systemically important banks was conducted in 2016. On the basis of this review, a systemic risk buffer of 1%–3% of common equity was set for five banks. The CNB responded to the shift of the domestic financial cycle to a phase of stronger recovery and in December 2015 set the CCB rate at 0.5% of exposures in the Czech Republic with effect from January 2017.

In 2016, the CNB identified the risk of a price spiral between property prices and house purchase loans. Although it did not assess the trends in the area of loans for house purchase as an acute market overheating giving rise to direct risks to financial stability, it decided to tighten the loan-to-value ratio (LTV). The earlier LTV ceiling of 100% was lowered to 95% in October 2016 and 90% in April 2017.

The regularly updated *Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area* was published in December. In this document, the CNB and the Ministry of Finance recommended that the Czech Government should not set a target date for adopting the euro and should not attempt to enter ERM II in 2017.

Organisational and personnel changes were made at the central bank in 2016. With effect from 1 July, the President of the Czech Republic appointed me as Governor in place of Miroslav Singer, whose term of office, together with that of Kamil Janáček, ended on 30 June. Vojtěch Benda and Tomáš Nidetzký were appointed as new members of the CNB Bank Board. Following these changes, the portfolios of the departments supervised by the individual board members were redistributed.

A new Supervision Department II was established on 1 July. The department is responsible for carrying out the CNB's new activities under the Consumer Credit Act and other work previously performed by stand-alone departments – the Consumer Protection Department and the Retail Distribution Supervision Department – and by the Financial Market Supervision Division (LSIIs) of the Financial Market Supervision Department.

The Economic Research Department was abolished on 31 December. Its work was divided and transferred to the Monetary Department and the Financial Stability Department on 1 January 2017. The change was aimed at strengthening the link between research and the central bank's core activities while maintaining the professional quality of research work and publications. The EU and International Organisations Division was transferred from the General Secretariat to the Financial Market Regulation and International Cooperation Department on the same date. In addition, some of the activities of the Human Resources Division were transferred to the Budget and Accounting Department and the Administration Department.

As of 31 December, the CNB had 1,365 employees, 13 more than a year earlier.

In collaboration with the European Central Bank, the CNB organised a "Productivity and External Rebalancing" conference in April for the ESCB's Competitiveness Research Network. The traditional Research Open Day, attended by economists from around the world, was held in May. In October, the CNB held a conference on "Challenges for Financial Stability in Europe" in partnership with the Institute of Economic Studies of the Faculty of Social Sciences at Charles University.

In 2016, the CNB introduced two new communications tools – VlogČNB and video interviews – to streamline communication and relations with the general public. These tools provide central bank representatives with another channel for presenting the institution's activities to the public in more detail and responding to various topical issues.

The CNB held an Open Day in June, its sixth since it was formed in 1993. More than 5,000 people visited the central bank. The central theme of the event was the 90th anniversary of the establishment of the National Bank of Czechoslovakia. This anniversary is also the inspiration for the graphic design of this report.

In 2016 the CNB issued three CZK 200 commemorative silver coins, one CZK 500 silver coin and two CZK 5,000 gold coins. These two coins marked the beginning of a new five-year cycle of ten gold coins presenting various architectural styles of castles built in the Czech Republic over several centuries.



Jiří Rusnok
Governor



The Bank Board was the supreme statutory body of the National Bank of Czechoslovakia at the time the bank was established. It was responsible for managing all the bank's assets, conducting and overseeing all the transactions it made, and making monetary policy. In addition to the governor at its head, it had a further ten

members. Given the state's one-third share in the bank's equity capital, the governor and three other members were appointed by the president of Czechoslovakia at the government's proposal. The other six members were decided on by the shareholders, who elected them at the annual general meeting. One of the shareholders' representatives was



1.

THE BANK BOARD

appointed deputy governor by the president at the government's proposal. With the governor's consent, the Bank Board could add one more member at its discretion; this person represented Slovak economic interests. The governor's term of office was five years, while the terms of office of the other members ran for six years. The mandate based on co-option

(at the discretion of the Bank Board) was limited to two years.

The board members were divided into three sections (foreign exchange, credit and administrative) tasked with preparing documents for Board meetings and discussing individual issues in detail. The section chairmen and the governor formed a select committee responsible for implementing board resolutions.

THE BANK BOARD



The Bank Board as of 31 December 2016

Back: Lubomír Lízal, Tomáš Nidetzký

Middle: Pavel Řežábek, Mojmír Hampl, Vladimír Tomšík, Vojtěch Benda

Front: Jiří Rusnok

The Bank Board is the supreme governing body of the CNB. It has seven members: the Governor, two Vice-Governors and four other members. Bank Board members are appointed and recalled by the President of the Czech Republic. They are appointed for a term of six years. No one may hold the position of Bank Board member more than twice.

Membership of the Bank Board is incompatible with the position of member of a legislative body, member of the Government and membership of the governing, supervisory or inspection bodies of other banks or commercial undertakings, and the performance of any independent gainful occupation, except for scientific, literary, journalistic, artistic and pedagogical activities and except for management of own assets. Membership of the Bank Board is incompatible with any activity which might cause any conflict of interest between the performance of this activity and membership of the Bank Board.

The Bank Board sets monetary and macroprudential policy and the instruments for implementing them in line with the CNB's primary objective, namely to maintain price stability, and in line with the task of maintaining financial stability. It decides on fundamental monetary and macroprudential policy measures and lays down principles for CNB transactions. It decides on key measures relating to financial market supervision, resolution on the financial market and cash and non-cash money circulation. It sets the CNB's overall development strategy and rules for the CNB's involvement in the activities of the EU, the European System of Central Banks (ESCB) and the European Systemic Risk Board (ESRB) and its cooperation with international financial institutions. It decides on the bank's organisational structure and the powers and responsibilities of the organisational units at its headquarters and branches. It also approves the CNB's budget and financial management principles.

The Governor, or, in his absence, a Vice-Governor nominated by him, chairs the meetings of the Bank Board. The Bank Board acts by a simple majority of the votes cast. In the event of a tie, the chairperson has the casting vote.

With effect from 1 July 2016, Jiří Rusnok was appointed as CNB Governor, replacing Miroslav Singer, whose term of office expired on 30 June 2016. The mandate of Kamil Janáček also ended on 30 June 2016. Vojtěch Benda and Tomáš Nidetzký were appointed as new members of the CNB Bank Board with effect from 1 July.





The first Czechoslovak banknote was a landmark event in the National Bank of Czechoslovakia's first year of existence. The 20-koruna note was designed by Alois Mudruška, a professor at the Prague School of Applied Arts. Although the

Banknote Printing Works at the Ministry of Finance Banking Office had started the preparatory work earlier, the note was not issued until 1926.

The paper contained a localised combined watermark with a repeated denomination of 20 and was

II.

THE CNB IN 2016



died pink for better counterfeit protection. Both sides had a frame; the face side was letterpress-printed in iridescent blue-brown-red and the reverse side was intaglio-printed in dark blue. The underprint consisted of guilloche compositions and the denomination in flat relief.

The face side featured a portrait of Milan Rastislav Štefánik and the reverse side a portrait of Alois Rašín. The engraver was Karel Wolf. The note was signed by Governor Vilém Pospíšil, Vice-Governor Vladislav Brdlík and Chief Executive Director Augustin Novák.

THE CNB IN 2016

MONETARY POLICY AND ECONOMIC DEVELOPMENTS

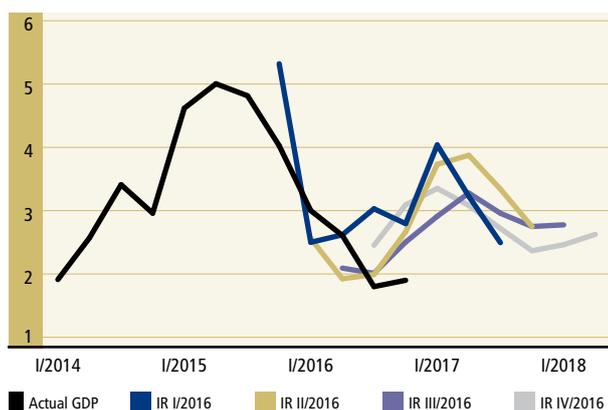
The primary monetary policy objective as laid down in the Act on the CNB is to maintain price stability. Since January 1998, this has been achieved under an inflation targeting regime in which the CNB tries to keep inflation close to a declared target. Since 2010, the CNB's inflation target in terms of the consumer price index has been set at 2% with a tolerance band of ± 1 percentage point. This target is in line with the practice of advanced economies.

In 2016, monetary policy operated in an environment of continued – albeit slowing – growth of the domestic economy and gradual exhaustion of reserves on the labour market. Domestic inflation pressures visibly strengthened. For most of the year, however, inflation was well below the inflation target, or below the lower boundary of the tolerance band around the target, owing to only slowly abating deflation abroad. At the very end of the year, however, it rose rapidly, and it reached the CNB's 2% target. In line with the continuing use of the exchange rate as a monetary policy instrument, monetary policy interest rates remained at technical zero, where they have been since November 2012. The exchange rate of the koruna was just above the exchange rate commitment of CZK 27 to the euro. The CNB maintained its exchange rate commitment through automatic purchases of euro on the foreign exchange market. During 2016, the Bank Board prolonged the exchange rate commitment in two steps at least until the end of the first quarter of 2017.

The growth of the Czech economy of almost 2.5% in 2016 was driven mainly by household consumption and to a lesser degree by net exports. However, the growth rate was about one-half of that recorded in the previous year, mostly because of a temporary drop in government and private investment co-financed from EU funds. The economy continued to be supported by easy monetary conditions via the weakened exchange rate and exceptionally low interest rates, still relatively low oil prices and rising external demand. The continuing domestic economic growth was mirrored in increasing tightness in the labour market. Wage growth accelerated, employment continued to rise apace and the long-running fall in the unemployment rate resulted in the Czech Republic recording the lowest level of this indicator in the entire EU.

The forecasts drawn up by the CNB during 2016 and published in its Inflation Reports predicted a slowdown in economic growth last year. A slowdown was indeed observed, but at the end of the year it was somewhat larger than forecasted due to unexpectedly

GDP forecasts (in %)



Fulfilment of the inflation target (in %)



subdued export growth, among other things. The CNB’s forecasts for the next two years indicate a slight pick-up in growth. They are based on the assumption that, on the one hand, growth in investment will resume, but, on the other hand, domestic economic growth will be suppressed in the longer run by less easy monetary conditions following the exit from the CNB’s exchange rate commitment

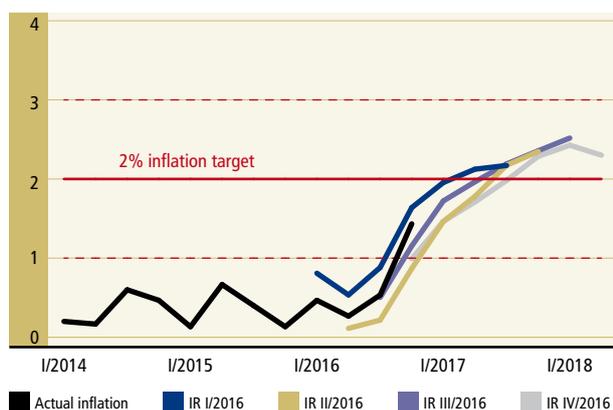
Inflation was at very low levels for most of the year. This was due mainly to low prices of energy commodities and food, which largely offset core inflation exceeding 1%. This reflected strengthening domestic inflation pressures in an environment of continuing solid economic growth and accelerating wage growth. The previous long-lasting and pronounced decline in fuel prices faded away at the close of the year amid recovering growth in food prices. In December, this was accompanied by the price impacts of the introduction of electronic registration of sales in accommodation and food services. Inflation thus increased at the end of the year and reached the 2% target in December after having spent four years below it.

The inflation forecast published in early 2016 suggested that inflation would reach the target in the first quarter of 2017. However, the forecasts drawn up in the rest of the year postponed the timing of attaining the target to the second or third quarter of 2017. This shift was due to unexpectedly low inflation for most of the year, reflecting lower-than-expected food prices and more subdued core inflation. A downward revision of the outlooks for foreign producer prices and domestic wage growth acted in the same direction. At the very end of the year, however, food prices recovered surprisingly fast and producer prices in the euro area also rebounded from their year-on-year decline at an unexpectedly brisk pace.

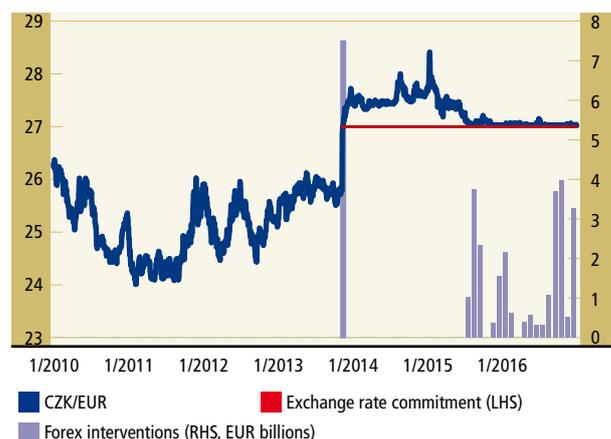
The actual and expected inflation developments during 2016 signalled that monetary conditions needed to be kept expansionary to the existing extent. This assessment reflected an outlook that sustainable fulfilment of the CNB’s 2% target, which is a condition for a return to conventional monetary policy, would not occur until 2017. The forecast published in *Inflation Report III/2016* shifted the assumed duration of the use of the exchange rate as an additional monetary policy instrument from the end of 2016 to mid-2017. This assumption was maintained in the following two forecasts. At its February meeting, the Bank Board stated that it would not end the exchange rate commitment before 2017 and that the commitment was likely to be discontinued in the middle of that year. At its September meeting, the Bank Board prolonged the commitment, stating that the CNB would not discontinue it before the second quarter of 2017.

Inflation forecasts

(in %)



The exchange rate of the koruna against the euro





During 2016, the Bank Board discussed the possibility of introducing negative interest rates in light of a widening positive interest rate differential vis-à-vis the euro area and developments in domestic financial markets. Moreover, at its May and August meetings the Bank Board communicated its readiness to shift the exchange rate commitment to a weaker level if there were to be a systematic decrease in inflation expectations manifesting itself in nominal variables, especially wages. The Board also pointed out throughout the year that any exchange rate appreciation following the discontinuation of the exchange rate commitment would be dampened, among other things, by hedging of exchange rate risk by exporters during the existence of the commitment, by the closing of koruna positions by financial investors, and by possible CNB interventions to mitigate exchange rate volatility.

In line with its declared strategy, the CNB intervened automatically to maintain the exchange rate commitment by buying euro on the foreign exchange market during the year. These purchases totalled EUR 16.851 billion. The exchange rate thus remained very close to the CNB's exchange rate commitment of CZK 27 to the euro throughout the year.

At the end of 2016, the CNB in cooperation with the Ministry of Finance prepared for the Government the regular *Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area*. The document resulted in a recommendation not to set a target date for adopting the euro yet and thus not to attempt to enter ERM II during 2017. This recommendation was based on a whole range of factors. The economic situation in the euro area still cannot be assessed as sufficiently stabilised, economic alignment across euro area countries is still not adequate and the entire EU is grappling with low enforceability of the fiscal rules. Another problem is the considerable uncertainty about the future political, economic and institutional set-up of the European integration group, exacerbated by the result of the Brexit referendum. The economic preparedness of the Czech Republic itself to adopt the euro has improved compared to previous years but still cannot be assessed as sufficient for adopting the single currency. The process of real economic convergence of the Czech Republic, including convergence of the price level, remains unfinished. The problem of long-term sustainability of public budgets given population ageing has not been resolved either, and labour market flexibility also remains insufficient in some respects.

■ STATISTICS

The CNB's Statistics and Data Support Department develops, collects, compiles and publishes statistics providing a database for the support of monetary policy, financial market supervision and financial stability. These statistics are also used by state authorities, financial market participants, the media and the public. 2016 was an important year in that the Statistics and Data Support Department, on top of its usual activities and projects, was implementing or involved in the implementation of four special projects: the universal data collection system (SDAT), the Central Register of Accounts (CRA), the collection of granular credit and credit risk data (AnaCredit) and the modification of the system for storing and administering reference data on institutions (RIAD).

As regards the Central Register of Accounts, the preparation and operation of the system is a new task for the CNB ensuing from the Act on the Central Register of Accounts. In connection with this law, negotiations with the Ministry of Finance about the text of the agreement on the acquisition and financing of the CRA were completed. The agreement was signed on 16 November 2016. Technical implementation of the CRA project was commenced, work on the preparation of an implementing decree was started and personnel, organisational and operational arrangements were made to ensure the launch of the system by the date set by law.

As regards monetary and financial statistics, a compilation system for payments statistics was completed. Progress was made with the development of the system for automatic compilation of harmonised insurance company statistics based on a single reporting framework covering the supervisory requirements under Solvency II and the additional statistical requirements of the ECB. For these statistics, procedures for compiling stocks were set up and work on deriving flows was begun. Within the ESCB, involvement in the preparation of a new regulation governing the production of harmonised pension fund statistics continued. As regards granular credit data, the Central Credit Register (CCR), which enables banks and foreign bank branches operating in the Czech Republic to exchange data on business credit commitments in order to support credit risk management, kept running as normal. The development and testing of new output formats for bank users continued in 2016. In collaboration with the Czech Banking Association, progress was made with the preparations for AnaCredit (harmonised collection of granular data on credit claims), which is to be linked to the CRA in the future. In connection with AnaCredit, a project to modify the local version of RIAD, a pan-European system for administering the reference data on financial market institutions and credit counterparties recorded in AnaCredit, was commenced last year.

Turning to supervisory statistics, further changes were made in the segments of credit institutions and investment firms, insurance companies and the capital market in connection with the EU's single reporting frameworks and the national requirements of integrated CNB financial market supervision. In the first case, new reporting requirements were introduced in the liquidity area and for the leverage ratio. Modifications and changes to the COREP and FINREP single reporting frameworks were also implemented. In the area of supervisory reporting for insurance companies, implementation of Solvency II reporting was finalised and regular data reporting to the European Insurance and Occupational Pensions Authority (EIOPA) was launched. At the same time, national requirements were implemented for reporting by insurance companies. Work on implementing directives and related EU legal acts on capital markets also continued in 2016. This work concerns the implementation of the single reporting framework of the European Securities and Markets Authority (ESMA) and is aimed at full implementation of the directive and the regulation on markets in financial instruments (MiFIR/MiFID 2) as of 1 January 2018.

In the area of quarterly financial accounts statistics, the historical time series were revised in accordance with EU standards. In addition, the project introducing automatic input data processing and production of output sets was completed in 2016. As regards government finance statistics, a pilot project to extend the calculation of government debt service on the basis of CRA data was implemented at the CNB for the needs of the ECB and the ESCB. The CNB also expanded its cooperation with the Ministry of Finance in the use of data from the Central Accounting System.

As for external statistics, the time series of the detailed presentation of balance of payments and international investment position data under the methodology of the sixth balance of payments manual (BPM6) for 2004–2007 on the CNB website was extended for users in 2016. In April 2016, the Czech Republic joined the countries meeting the criteria of the International Monetary Fund's SDDS Plus statistical initiative, which is aimed at publishing high-quality, transparent and internationally comparable macroeconomic data expanded to include financial stability indicators. A new data reporting system expanding the time series presentation of macroeconomic and financial indicators in open format was put into operation thanks to intensive cooperation between economists, statisticians and technical experts from the CNB, the Czech Statistical Office and the Ministry of Finance in collaboration with the IMF.

As regards information systems and technology supporting mass data processing, the development of the new SDAT data collection system continued in 2016. This system will serve as a unified interface for submitting statistical and supervisory data to the CNB and will replace the current system. In early 2016, the CNB launched the presentation of selected statistical data in the OBIEE interactive analytical tool on its website. This gives a more detailed view of the data than the previous presentations. In the area of receiving and processing licence applications, the information system for registration and licensing activities was expanded to include applications defined in the Consumer Credit Act. Since 1 December 2016, it has been possible to submit applications for licences for non-bank consumer credit providers, independent intermediaries, tied agents and intermediaries of tied consumer credit through this system.

■ FINANCIAL STABILITY

Maintaining financial stability and seeing to the sound operation of the financial system in the Czech Republic are among the central bank's primary objectives. The CNB identifies, monitors and assesses risks jeopardising the stability of the financial system. By preventing or mitigating these risks, the CNB contributes by means of its powers to the resilience of the financial system and the maintenance of financial stability and thus creates macroprudential policy. It provides information about the conduct of this policy on its website (*Financial stability > Macroprudential policy*).

The main tool used to communicate with the public in the financial stability area is the Financial Stability Report. The CNB publishes this report on its website (*Financial stability > Financial stability reports*) and also provides information about its content at a special seminar and at a press conference given by the Governor. In accordance with the law, it also submits the report to the Chamber of Deputies (the lower house of the Czech Parliament). The Financial Stability Report above all aims to identify new risks arising from domestic economic developments and the external environment. Another key objective is to assess the ability of the domestic financial system to withstand the impacts of adverse economic shocks using stress tests.

Financial Stability Report 2015/2016, published in June 2016, concluded that the banking sector's already high resilience to potential adverse shocks had strengthened further, as confirmed by stress test results. This was due mainly to an increase in capital adequacy, favourable liquidity developments and positive changes in risk management by financial institutions. As regards potential sources of risks to financial stability in the future, the cyclical risks had increased, due mainly to a recovery in demand for loans, an easing of credit standards and growth in property prices. The CNB's mandate also requires it to react to emerging risks to financial stability by applying macroprudential tools. Back in 2014, the CNB introduced a requirement for all banks in the Czech Republic to create a capital conservation buffer (CCB) equal to 2.5% of their common equity and set a systemic risk buffer for the four systemically most important banks. The first regular review of systemically important banks was conducted in 2016. On the basis of this review, a systemic risk buffer of 1%–3% of common equity was set for five banks. The CNB responded to the shift of the domestic financial cycle to a phase of stronger recovery and in December 2015 set the CCB rate at 0.5% of exposures in the Czech Republic with effect from January 2017.

Financial Stability Report 2015/2016 identified the risk of a price spiral between property prices and house purchase loans. Although the CNB did not assess the trends in the area of loans for house purchase as an acute market overheating giving rise to direct risks to financial stability, it decided to tighten the parameters of the *Recommendation on the management of risks associated with the provision of retail loans secured by residential property* adopted in June 2015. The ceiling for the loan-to-value ratio (LTV), i.e. the ratio of the amount of a loan to the value of collateral, was reduced from 100% to 95% in October 2016 and 90% in April 2017. In line with an IMF recommendation, the CNB prepared an amendment to the Act on the CNB in cooperation with the Ministry of Finance. The bill should empower the CNB to set binding upper limits on certain risk indicators now subject to the above Recommendation.

Analyses of risks to financial stability and proposals for macroprudential policies are discussed at the Bank Board's regular meetings on financial stability issues. At the EU level, the Governor and a Vice-Governor attend the regular meetings of the General Board of the European Systemic Risk Board (ESRB). CNB representatives are involved in the ESRB Advisory Technical Committee (ATC) and its working groups. In 2016, the CNB contributed mainly to the work of teams dealing with risks associated with residential property markets. Cooperation within the European Central Bank (ECB), especially on the completion of the database of macroprudential measures in EU countries, continued via the Financial Stability Committee (FSC). The CNB is also involved in the Regional Consultative Group of the Financial Stability Board (FSB) established by the G20. In 2016, the CNB was actively involved in the discussion of risks related to the environment of very low interest rates and appropriate measures for responding to those risks.

■ FINANCIAL MARKET SUPERVISION

The CNB is the supervisor of the financial market in the Czech Republic. To the extent stipulated in legal rules, the CNB supervises entities operating on the financial market, lays down rules for their business to safeguard the stability of the financial system, and systematically regulates, supervises and, where appropriate, issues penalties for non-compliance with those rules. The CNB is part of the European System of Financial Supervision and works in cooperation with the European Systemic Risk Board and the European Supervisory Authorities for the banking industry (EBA), insurance and occupational pensions (EIOPA) and securities and markets (ESMA). The CNB provides detailed information about financial market supervision in its annual Financial Market Supervision Report available on its website.

■ FINANCIAL MARKET REGULATION

The CNB was actively involved in preparing financial market laws, mainly in partnership with the Ministry of Finance. It also focused on constructively influencing the ongoing EU legislative process in the financial market area. It prepared implementing decrees and issued a series of explanatory and methodological opinions interpreting the application of regulatory requirements pertaining to financial market participants. A complete and up-to-date list of the CNB's decrees, provisions of a general nature, official information and opinions relating to the financial market can be found on the CNB website (*Supervision, regulation > Legislation*).

One major legislative change was the adoption of a new Consumer Credit Act which transposes the directive on credit agreements for consumers relating to residential immovable property and replaces the original Consumer Credit Act transposing the directive on credit agreements for consumers. The Consumer Credit Act applies to all consumer credit provided by businesses to consumers and introduces CNB supervision of all consumer credit providers and intermediaries.

In the area of insurance regulation, an amendment to the Insurance Act transposing the directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) was of key importance. The main objective of this amendment was to implement better protection of insured parties and bolster the financial stability of insurance companies. It mainly involved requirements for the governance systems of insurance and reinsurance companies, asset and liability valuation methods, methods for determining capital requirements and rules for setting technical provisions. The Act on Insurance Intermediaries and Independent Loss Adjusters was also amended to include rules for commission payments to intermediaries and the calculation of surrender values for insurance companies' clients. In addition to the said legislative work, preparations to transpose the directive on insurance distribution took place. The transposition is to be implemented by issuing a new law.

In the area of credit institutions, a major amendment to the Act on Banks was prepared during the year. The bill will introduce detailed rules for conversion of banks, establish a shared CNB-run bank database for cyberattacks and incidents, and tighten up the deposit insurance rules. The work in this area also included an amendment to the Act on Credit Unions which, among other things, newly defines the calculation of settlement shares for members leaving a credit union and the procedure for assessing senior officers in a credit union. A new Act on the Central Register of Accounts (CRA), which establishes a central database of basic information on the accounts managed by credit institutions, also directly affects the bank and credit union sector. The CNB will run the CRA on behalf of the state. In addition, an amendment to the Recovery and Resolution Act was submitted to the government. It contains above all the possibility to issue debt instruments convertible into equity, extends the options of the moratorium on the fulfilment of a bank's obligations and simplifies the procedures concerning protection of competition during resolution.

In the area of capital market regulation, a draft amendment to the Capital Market Undertakings Act implementing the directive on markets in financial instruments (MiFID 2) and transposing other EU regulations (stricter rules for the activities of investment intermediaries, among other things) was submitted to the Chamber of Deputies. A draft amendment to the Act on Bonds, intended to change the legislation governing mortgage bonds and covered bonds, was also prepared.

Based on its supervisory findings, the CNB prepared a proposal for changes to the Act on Bureau-de-change Activity, which it sent to the Ministry of Finance. The proposal contains, among other things, the right of a consumer to withdraw from an exchange (cancellation), consistent implementation of the single exchange rate rule, the introduction of bureau-de-change registration and stricter fines.

■ EUROPEAN REGULATION

Intensive work on new European financial market regulations continued at the level of the European Commission, the EU Council and the European Parliament. As the number of legal acts issued as (directly applicable) regulations increases, the importance of the CNB being actively involved in the drafting of those legal acts also rises. The CNB prepared opinions on proposals for new legislation on an ongoing basis and its representatives actively promoted the CNB's positions in EU committees and working groups.

A series of legal rules implementing or amending the directive and regulation governing the business of, and prudential requirements for, credit institutions (CRD IV and CRR), the directive and regulation on markets in financial instruments (MiFID 2 and MiFIR), the regulation on credit rating agencies (CRAR) and the regulation on market abuse (MAR) were published during the year. A regulation on indices used as benchmarks in financial instruments and financial contracts (the benchmark directive) and a directive on the business and supervision of institutions for occupational retirement provision were also published. In addition, an amendment to

MiFID 2/MiFIR (“Quick-Fix”) postponing the effect of MiFID 2/MiFIR until the start of 2018 was approved. The effect of the regulation on key information documents for investment products (PRIIPs) was also postponed until that date.

In November, the European Commission published legislative proposals to reduce risks in the banking sector. Among other things, these contain an amendment to CRD IV/CRR and an amendment to the recovery and resolution directive (BRRD). The draft amendment to CRD IV/CRR changes, among other things, the rules for calculating capital requirements for market and counterparty risks and introduces a binding leverage ratio or net stable funding ratio as a mandatory liquidity standard. The main aims of the proposed changes to BRRD are to harmonise the insolvency ranking of bank creditors, to harmonise the introduction of the moratorium on the fulfilment of banks’ obligations and to implement the international standard for capital usable during bank resolution into the European legislation.

At the EU level, work was also under way to amend the recently adopted Fourth Anti-Money Laundering Directive (AML). In particular, the amendment aims to address virtual currencies and introduce central account registers. In both cases, relevant solutions have already been implemented into Czech law.

Within the European Supervisory Authorities, the CNB was actively involved in the preparation of numerous other implementing measures and guidelines for directives and regulations, including CRD IV and CRR, BRRD, MiFID 2, the CSDR directive (concerning requirements applying to the activities of central securities depositories), the insurance distribution directive and the benchmark directive.

■ INTERNATIONAL COOPERATION ON THE FINANCIAL MARKET

In the banking union area, work continued on streamlining the first and second pillars, i.e. on improving the operation of the Single Supervisory Mechanism and the preparedness of European and national authorities for potential resolution. At the working level, technical issues related to the possible establishment of a third pillar of the banking union, i.e. the creation of a European Deposit Insurance Scheme (EDIS), were discussed and technical work on a common backstop to the Single Resolution Fund (SRF) was commenced. In the discussions, the CNB pointed to the need for a phased approach in which actions leading to risk and cost sharing should be implemented only after steps have been taken to reduce risks in the European banking sector. At the June ECOFIN meeting, ministers of finance approved the Council’s conclusions regarding the roadmap to complete the banking union. The roadmap sets out principles for the relationship between steps to reduce risks and steps to share risks in the form of a compromise. At the close of the year, the Commission submitted legislative proposals to reduce risks in the banking sector.

Work towards establishing a capital markets union – aimed at creating suitable conditions for the development of the European capital market in the EU – continued during the year. In the discussions about individual measures, the position of the CNB and its representatives was based on the opinion it had provided to the European Commission in a public consultation in 2015. The CNB emphasised the need for a stable regulatory environment and a comprehensive assessment of the regulations adopted and unfinished structural reforms. The CNB also criticised the possible further transfer of direct supervisory powers to the European Supervisory Authorities (ESAs) or other international organisations at the expense of national supervisory authorities, which are responsible for the stability of their financial sectors, expressed objections to the introduction of the European pension product and continued to voice reservations about any relaxation of the prudential regulation of some types of assets. Although some progress was made with numerous legislative measures concerning the capital markets union project during the year, many of the planned measures have not been completed yet and many have been postponed due to the planned exit of the United Kingdom from the EU.

As in the previous year, the large number of legislative proposals issued by the European Commission had a significant impact on the workload of the ESAs and the European Systemic Risk Board (ESRB) in 2016, especially in the preparation of regulatory and implementing technical standards, technical advice and opinions on European Commission consultation papers. CNB representatives were actively involved in the work of the ESAs at board of supervisors, standing committee and working group level. CNB experts prepared numerous analyses and opinions and contributed actively to guidelines and recommendations.

The central bank's key activities also included the preparation of opinions, proposals for modifications of mandates and comments on instructions within the ECOFIN Council and its structures and also participation in the plenary meetings of the Council of Europe's MONEYVAL Committee (the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism). The CNB was involved through its representatives and their attendance at meetings in the activities of other international institutions and associations, including the OECD Committee on Financial Markets, the Basel Committee on Banking Supervision (BCBS), the International Organisation of Pension Supervisors (IOPS) and the International Organization of Securities Commissions (IOSCO). The CNB organised, among other things, a regular meeting of the IOSCO European Regional Committee in Prague last year.

In 2016, the CNB was involved in ten supervisory colleges for European banking groups, acting as consolidating supervisory authority in one case. Among other things, the colleges assessed the risk profiles of banking groups and their members, group recovery plans and the process of approval of internal models and changes thereto. The CNB was also actively involved in supervisory colleges for international insurance groups. The meetings focused, for example, on group internal models, the quality of implementation of the Solvency II requirements by individual institutions, risk assessments of insurance companies and insurance groups and the evaluation of risk and solvency self-assessment reports. 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.

■ LICENSING, APPROVAL AND AUTHORISATION ACTIVITIES IN THE FINANCIAL MARKET AREA

As the financial market supervisory authority, the CNB issues authorisations (licences) to the majority of service providers on the financial market. In this context, it also issues other permissions or approvals, for example approvals of securities prospectuses and approvals of the publication of takeover bids. In these cases, the CNB acts as an administrative authority.

A total of 22 domestic banks and 11 credit unions were subject to CNB supervision as of 31 December. ERB bank, a.s. had its banking licence revoked. Credit union CREDITAS, spořitelní družstvo was given consent to convert into a joint-stock company and granted a banking licence. A total of 23 foreign bank branches were also operating in the Czech Republic.

After the winding-up of Wüstenrot pojišťovna, a.s. and Wüstenrot, životní pojišťovna, a.s., which merged with the successor company Allianz pojišťovna a.s., the CNB was supervising 29 domestic insurance companies (excluding the Czech Insurers' Bureau), one reinsurance company and, to a limited extent, 24 branches of foreign insurance companies at the end of 2016.

As in 2015, the CNB was supervising eight pension management companies, which together were managing 35 transformed and participation funds as of 31 December after retirement funds were abolished by law.

In the management companies and investment funds sector, the CNB was supervising 27 management companies, 108 investment funds with legal personality (of which 27 were autonomous investment funds) and 201 mutual funds.

At the end of 2016, the CNB registered 33 holders of investment firm licences. No new licences were granted and no licences expired in 2016.

At the end of the year, the CNB was supervising 20 payment institutions (two more than at the end of 2015) and two electronic money institutions, four processors of domestic banknotes and coins, 168,095 insurance intermediaries, 7,340 investment intermediaries, 26,612 tied agents and many other less important types of financial entities.

In the area of securities issues and regulated markets, a total of 104 companies whose securities had been admitted to trading on a European regulated market (issuers of listed securities) were registered at the end of 2016. Securities of 29 issuers were newly admitted to trading on a regulated market in 2016, while securities of eight issuers were excluded from trading. Of the newly admitted securities, 19 were collective investment undertakings. Five securities excluded from trading were redeemed bonds.

The number of licensed regulated market operators (three) and the number of settlement systems with settlement finality (three) remained unchanged from the previous year. The number of multilateral trading facility operators increased by one to three. There is still one central depository.

The Consumer Credit Act took effect on 1 December. The CNB received eight applications for non-bank consumer credit provider licences, 27 applications for independent intermediary licences and 11 applications for accreditation in December. The CNB also entered 3,506 entities in the list of tied agents.

Statistics of administrative proceedings

Types of financial institutions	No. of administrative proceedings continuing from 2015	No. of administrative proceedings opened in 2016	No. of administrative proceedings closed in 2016
Credit institutions	9	28	31
Insurance sector	7	40	44
Pension management companies and funds	25	23	48
Accredited entities	0	3	0
Management companies and investment funds	27	86	98
Investment services providers	9	137	133
Payment institutions	2	11	9
Electronic money institutions	0	1	1
Processors of domestic banknotes and coins	0	0	0
Securities issues and regulated markets	2	58	52

Note: Accredited entities are entities accredited to organise professional qualification examinations of supplementary pension savings and retirement savings distributors.

■ FINANCIAL MARKET SUPERVISION

In its off-site surveillance work, the CNB continuously monitored the activity and financial performance of individual financial market entities and assessed the evolution of the market as a whole and its segments. The CNB's supervisory work involved checking compliance with the regulatory requirements and compliance with prudential rules, regularly assessing the financial and capital condition of individual regulated entities and checking compliance with the conduct of business rules. High-intensity cooperation with partner supervisory authorities in other countries also remained a priority.

In the area of supervision of credit institutions, which comprises supervision of banks, building societies, credit unions and, under a simplified regime, foreign bank branches, the CNB concentrated primarily on the credit portfolio quality, capital adequacy, liquidity and overall performance of banks and their consolidated groups. It prepared comprehensive evaluations of the risk profiles of individual credit institutions on a regular basis under the supervisory and evaluation process and also assessed the quality of resolution plans and their compliance with the Recovery and Resolution Act. A joint decision on group recovery plans was taken by some supervisory colleges for the first time during the year.

The CNB, in cooperation with selected banks, continued to implement the joint bank stress testing project, which is performed annually. The aggregated results of the stress tests confirmed the good resilience of domestic banks. Their capital adequacy ratio stayed above the regulatory minimum by a sufficient margin even in an adverse scenario. In addition to these bottom-up tests, the CNB conducts half-yearly stress tests of the entire banking sector (top-down tests), the results of which are regularly published on its website (*Financial stability > Stress testing*).

Despite its relatively small market share, the credit unions sector was subject to intensive supervision. A substantial proportion of supervisory capacity was devoted to this sector. Following an amendment of the Act on Credit Unions, supervisors paid increased attention to measures taken by credit unions to implement that amendment.

Off-site prudential supervision of insurance companies is based mainly on regularly assessing the financial condition and solvency situation of the supervised insurance companies on the basis of regularly submitted statements and on assessing compliance with control system requirements. In 2016, the CNB drew on statements submitted in compliance with Solvency I and statements compiled in accordance with Solvency II for the purposes of analysing economic and technical insurance indicators. The main factor affecting the focus and priorities of supervision of insurance companies was the entry into effect of the Solvency II regulatory framework. The CNB therefore extended the schedule of gradual preparation for Solvency II applied in the previous two years to 2016.

The CNB assesses the resilience of the insurance sector to adverse scenarios of future economic developments using stress testing once a year. Due to the participation of the domestic insurance sector in the European stress tests organised by the EIOPA, the CNB did not perform its own stress tests last year. The CNB supplied an additional stress scenario for the Czech insurance sector taking into account the specificities of the domestic insurance market. The aggregated results using data as of 31 December 2015 proved that the sector as a whole is sufficiently capitalised and is able to absorb major changes in risk factors even under Solvency II.

Supervision of conduct of business in the insurance industry continuously monitored the preparedness of insurance companies for the new requirements set out in the directly applicable PRIIP regulation during the year. It was also focused on the quality of external distribution networks and insurance companies' compliance with the duty to act with professional care in loss adjustment.

CNB supervision in the area of pension management companies and funds managed by them was concentrated mainly on assessment of their compliance with regulatory limits (particularly the ratio of equity to capital requirements), compliance with legal and statutory investment limits,

their financial performance and compliance with the conduct of business rules. Attention was also paid to the retirement fund liquidation process. Retirement funds went into liquidation on 30 June. On 15 October, pension management companies started to pay out planholders' savings in retirement funds. This process was completed by the year-end.

As regards supervision of conduct of business in pension management companies, the CNB focused mainly on compliance with information duties to planholders and on pension management companies' procedures and internal rules for dealing with planholders and the procedures for concluding, amending and terminating contractual relationships between such companies and planholders.

The CNB supervises investment services providers, in particular investment firms that are neither banks, nor management companies authorised to provide investment services, nor foreign investment firms having branches in the Czech Republic. Off-site surveillance took the form of monitoring of the activities and performance of individual institutions in the areas of prudence and conduct of business, assessment of information received from other sources (financial statements, annual reports, auditor's reports, institutions' websites, media, etc.) and dealing with complaints from the public.

The CNB's supervisory activities in 2016 also focused on improving the situation as regards the services provided by non-bank bureau-de-change operators, especially proper compliance with all information duties to clients, and on assessing the effect of the Act on Bureau-de-change Activity on market practices.

As regards payment system supervision, the CNB focused primarily on the activities of small-scale payment services providers, in the form of both on-site inspections and off-site surveillance. Supervision of payment institutions, electronic money institutions and small-scale electronic money issuers mainly took the form of off-site surveillance.

Supervision of financial product distribution focused on proper compliance by supervised entities with information duties to clients in order to further enhance the level of services provided in this area.

■ SUPERVISION OF COMPLIANCE WITH CONSUMER PROTECTION REGULATIONS

Consumer protection supervision involved supervision of compliance with the obligations laid down in the Consumer Protection Act, the obligations set forth in the Civil Code in respect of distance contracts for financial services, the obligations relating to the provision of consumer credit and the information duties relating to the provision of payment services. This supervision took the form of off-site surveillance and on-site inspections. Consumers' complaints were one of the major sources of information.

The CNB received 733 complaints in the consumer protection area in 2016. As in previous years, most of the complaints concerned banking and insurance. A large number of complaints also related to bureaux de change, although a downward trend can be observed compared to previous periods. Conversely, there was an increase in the number of complaints relating to non-bank consumer credit providers.

A total of 217 insurance-related complaints were received in 2016. The majority concerned the provision of information about life insurance products by insurance companies and insurance intermediaries. Persisting problems with replacing one policy with another (renegotiation) were also addressed. Possible unfair conduct of insurance companies regarding life and non-life insurance claims was assessed, and complaints relating to the provision of insufficient pre-contract information by intermediaries were investigated.

In the area of credit institutions, a total of 292 consumer complaints pertaining to banking products were received. As in 2015, a large proportion of the complaints concerned payments.

A total of 24 complaints were investigated in the capital market area. As in the previous period, most of them concerned shortcomings in the provision of information about the riskiness and nature of products offered and also to possible unauthorised provision of investment services or the collection of funds from the public for the purpose of joint investment by a natural person.

A total of 101 complaints were received regarding the actions of bureau-de-change staff. Compared to 2015, a slight downward trend continued. Consumers complained about exchange rates and exchange fees (exchanges made by foreigners) which did not match their expectations.

A total of 60 complaints pertaining to non-bank consumer credit providers were received. However, these entities are subject to CNB supervision only if the credit was provided via a credit card. Complaints concerning cash consumer credit, in respect of which the CNB has no public-law supervisory competence, were forwarded to the Czech Trade Inspectorate for further investigation.

Twelve on-site examinations were conducted or commenced in 2016, eight of which concerned insurance intermediaries, one a bank, one a bureau-de-change operator, one a branch of a foreign insurance company and one a credit union. As regards insurance, the most frequent shortcomings were detected in the area of informing customers about the nature of life insurance (presentation of investment-linked life insurance as insurance), renegotiations and, for the first time, the provision of insufficient information about options for out-of-court resolution of consumer disputes by supervised entities.

■ ENFORCEMENT

In 2016, activity in the enforcement area consisted mainly in investigating petitions for the opening of administrative proceedings, making decisions on the opening of administrative proceedings or the deferral of cases, and conducting first-instance administrative proceedings, within which fines and remedial measures were imposed, licences revoked and registrations cancelled. In addition to conducting administrative proceedings with supervised entities, the CNB conducts administrative proceedings with entities that provide financial market services without having the relevant licence in financial market sectors where the law enables penalties to be imposed for the carrying on of unauthorised business. Final decisions in the CNB supervision area for which publication is prescribed by law are published on the CNB website (*Supervision, regulation > Conduct of supervision > Final administrative decisions*). Sanctions imposed on insurance intermediaries are entered in the Register of Insurance Intermediaries.

Statistics on administrative penalty proceedings

Area of imposition of penalty	No. of administrative penalty proceedings continuing from 2015	No. of administrative penalty proceedings opened in 2016	No. of administrative penalty proceedings closed in 2016	Total fines imposed (in CZK thousands)
Supervision of credit institutions	5	7	9	7,300
Capital market supervision	20	41	33	19,225
Supervision of insurance companies	20	33	43	6,585
Violation of the Act on Bureau-de-change Activity	4	43	42	3,935
Consumer protection	1	0	0	0
Payment system	3	4	5	2,210
Circulation of banknotes and coins	5	2	7	1,050
Act on the CNB	0	0	0	0
Financial market supervision, total	58	130	139	40,305

■ RESOLUTION PROCEDURES

In 2016, the CNB became an authority authorised to exercise resolution powers under the Recovery and Resolution Act. The CNB's activities in the resolution of banks, credit unions and some investment firms are based on two underlying assumptions: that resolution-related costs should be borne not by the state but by private individuals (primarily the institution's shareholders and creditors), and that resolution should only be applied if it is in the public interest.

In the CNB's organisation structure, the Resolution Department is an executive unit responsible mainly for planning resolution, for designing strategies for individual banks, for assessing the public interest and for prescribing contributions to the Resolution Fund. It also prepares and assesses the use of resolution instruments, including the rules and procedures for the use of the Resolution Fund.

In cooperation with the Single Resolution Board located in Brussels, the CNB participates in adopting joint decisions on resolution strategies for banking groups whose major subsidiaries carry on business in the Czech Republic. The next step in the planning area will be a regulation on the minimum requirement for own funds and eligible liabilities (MREL). In the event of resolution, the CNB will be able to write them down or convert them and so ensure continuity of the bank's critical functions. As agreement has yet to be reached on the amount, type, placement and potential subordinatedness of these liabilities, the impact on individual banks cannot be estimated at present. The Resolution Department works closely with other CNB units and with the institutions whose resolution it safeguards.

■ CURRENCY AND PAYMENTS

■ CURRENCY IN CIRCULATION

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

The value of currency in circulation was CZK 556.7 billion on 31 December 2016, up by CZK 46.6 billion on a year earlier.

Currency in circulation – 1 January 2012 to 31 December 2016 (CZK billions)



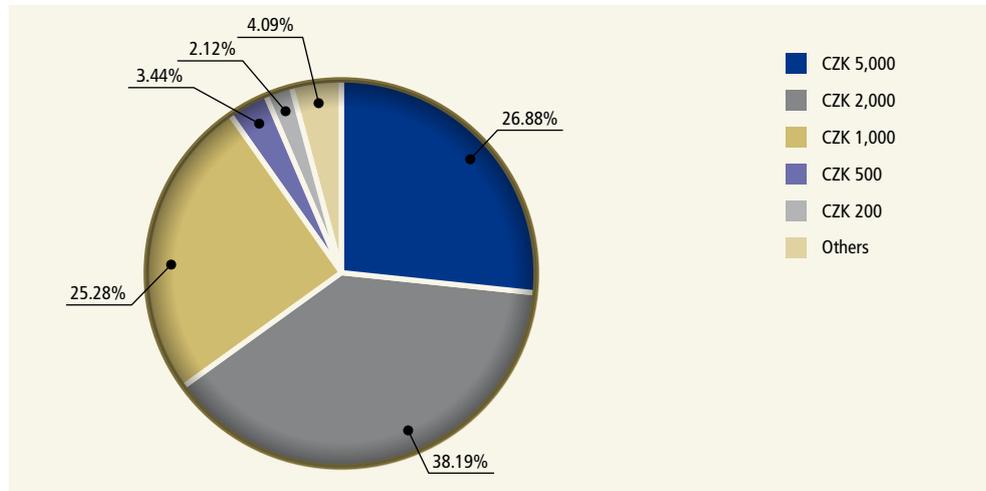
Number of banknotes and coins in circulation as of 31 December 2015 and 31 December 2016

	2015	2016	2015	2016
Denomination	CZK millions	CZK millions	millions of pieces	millions of pieces
CZK 5,000	137,079.0	149,624.5	27.4	29.9
CZK 2,000	186,321.8	212,586.3	93.2	106.3
CZK 1,000	136,249.6	140,728.5	136.2	140.7
CZK 500	17,779.1	19,155.7	35.6	38.3
CZK 200	11,262.6	11,805.9	56.3	59.1
CZK 100	5,681.9	5,965.4	56.8	59.7
CZK 50	583.3	581.3	11.7	11.6
Banknotes, total	494,957.3	540,447.6	417.2	445.5
CZK 50	5,192.6	5,686.0	103.9	113.7
CZK 20	3,513.7	3,721.1	175.7	186.1
CZK 10	2,025.6	2,139.8	202.6	214.0
CZK 5	1,189.9	1,251.1	238.0	250.2
CZK 2	851.1	896.3	425.5	448.2
CZK 1	519.2	545.6	519.2	545.6
Coins, total	13,292.1	14,239.9	1,664.9	1,757.7
Precious metal coins	1,878.7	2,001.3	2.4	2.5
TOTAL	510 128,2	556 688,8	2 084,5	2 205,8

The structure of currency in circulation in koruna terms and the structure of banknotes and coins in circulation in terms of numbers are shown in the following charts.

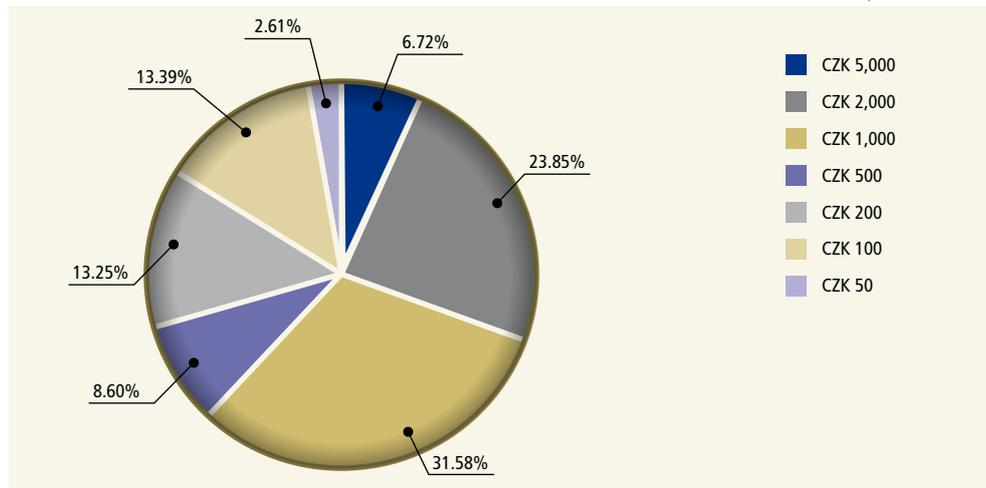
Structure of currency in circulation in koruna terms as of 31 December 2016

(shares in %)



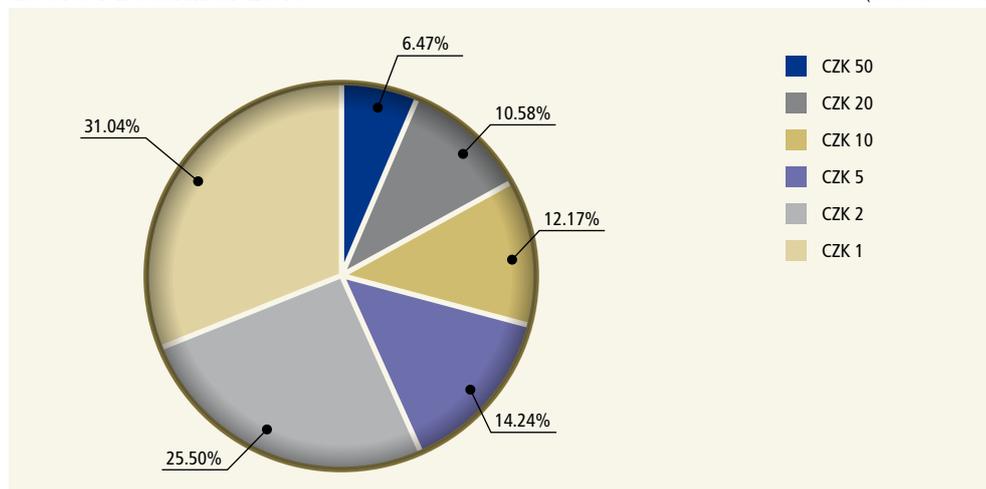
Structure of banknotes in circulation in terms of numbers as of 31 December 2016

(shares in %)



Structure of coins in circulation in terms of numbers as of 31 December 2016

(shares in %)



In all, 138.4 million banknotes, 100.9 million coins (including those for annual sets), 57,900 commemorative silver coins and 20,700 gold coins were produced in 2016. These banknotes and coins cost the CNB a total of CZK 432.3 million to produce.

Cash turnover at the CNB's cash offices amounted to CZK 1,355.6 billion, down by 5.2% year on year. The CNB's cash offices received 699.7 million banknotes and 320.1 million coins from circulation and issued 719.8 million banknotes and 412.3 million coins.

The CNB's branches processed 758.9 million banknotes and 315.4 million coins.

The CNB put into circulation three CZK 200 commemorative silver coins, one CZK 500 silver coin and two CZK 5,000 gold coins.



■ SUPERVISION OF COMPLIANCE WITH THE ACT ON THE CIRCULATION OF BANKNOTES AND COINS

Cash circulation, together with the related rights and duties of the CNB, banks, legal entities and natural persons, is regulated by Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins.

In 2016, the CNB opened a total of 14 inspections focusing on compliance with duties under the above-mentioned act:

- five inspections of banks, as part of which on-site inspections were conducted in 77 branches of banks and in 19 cash-handling centres of banks. A total of 148 mystery shopping inspections were conducted in banks, focusing on the exchange of damaged banknotes. In addition, 200 banknote processing machines and 38 deposit ATMs were tested.
- two inspections of handlers of domestic banknotes and coins, during which in-site inspections were conducted in ten cash-handling centres and 14 banknote processing machines were tested.
- two inspections of persons authorised by the CNB to organise special courses on the identification of suspected counterfeit or altered banknotes and coins.
- five inspections of operators of anonymous devices, of which two inspections of internet goods retailers, one inspection of an operator of an ATM for the sale and purchase of bitcoin, one inspection of a non-bank operator of payment terminals and one inspection of a goods wholesaler. A total of 34 anonymous devices (self-service cash registers, a bitcoin kiosk, payment terminals and post-office self-service kiosks) were tested in these inspections.

Two inspections commenced in 2015 and nine of the 14 inspections commenced in 2016 had been completed as of 31 December 2016.

■ NON-CASH PAYMENTS

The CNB keeps the accounts of the state and operates systems for transferring interbank payments and settling short-term securities transactions. Non-cash payment transactions are executed through the Czech Express Real-Time Interbank Gross Settlement System (CERTIS), the Short-Term Bond System (SKD) and the Automated Banking Operations (ABO) System.

The CERTIS system is used to maintain accounts of banks, the SKD system records bonds owned by banks, investment firms and other entities, and the ABO system maintains accounts of state organisational units and other state organisations and legal entities connected to the state budget. Detailed information about the set of clients and the involvement of the CNB in the Integrated Treasury Information System is available in the section *The CNB as the bank of the state*.

The entities whose accounts for the receipt of subsidies from the state budget are held at the CNB include self-governing territorial divisions and voluntary municipal organisations, regional councils of cohesion regions, public research institutions and public universities, as well as other legal entities with the approval of the Ministry of Finance.

To manage their accounts, clients use the ABO-K internet banking system or the services of the CNB's branches in Brno, Hradec Králové, Ostrava and Prague or its regional offices in České Budějovice, Plzeň and Ústí nad Labem.

■ **CERTIS – INTERBANK PAYMENT SYSTEM**

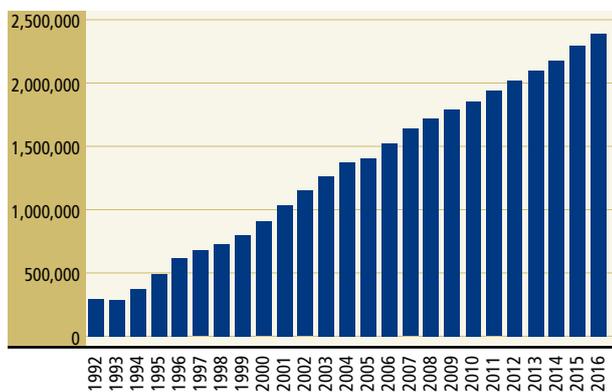
The CERTIS system processes interbank payments in the Czech Republic. Banks, credit unions and foreign bank branches are participants in this system. As of 31 December, CERTIS comprised 46 direct participants (for which accounts are maintained in the system) and six third parties (for example, card payment clearing houses and securities clearing and settlement institutions).

CERTIS processed 603 million transactions in 2016 (up by 4.8% year on year) with a total value of CZK 470,195 billion (up by 37.2%). The rise in the total value was due to an increased volume of sterilisation operations conducted by the CNB. A total of 2.39 million transactions were processed on average daily, with daily turnovers averaging CZK 1,866 billion.

The following charts show the number of transactions processed and the amount of funds transferred in CERTIS since 1992.

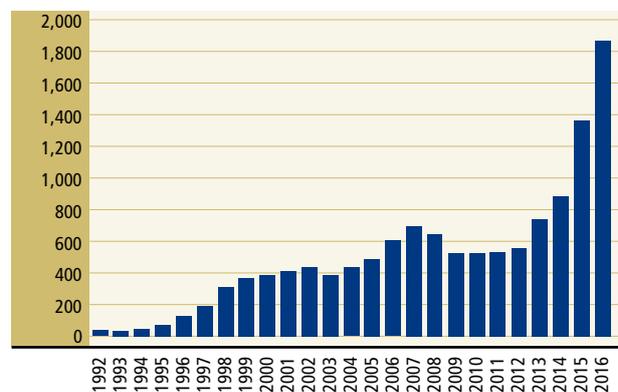
Average daily number of transactions

(in transaction units)



Average daily turnovers

(in CZK billions)



■ **SKD – SHORT-TERM SECURITIES SETTLEMENT SYSTEM**

The short-term securities settlement system operated by the CNB is a separate register of securities and a securities settlement system. Since 2011, certificates issued by accredited providers of certification services have been used for electronic signatures.

As of 31 December, a total of 79 asset accounts – belonging to 49 clients (securities owners) – were registered in SKD. The system records bonds issued by the CNB and government bonds issued by the Ministry of Finance.

The securities recorded in SKD are used, among other things, as collateral for the intraday credit that the central bank extends to banks for smooth accounting purposes within CERTIS. They are also used for the CNB’s repo operations and by the Ministry of Finance for daily liquidity management of the Single Treasury Account. On average, 39 transactions a day were processed in SKD in 2016. The average daily value of these transactions was CZK 153 billion.

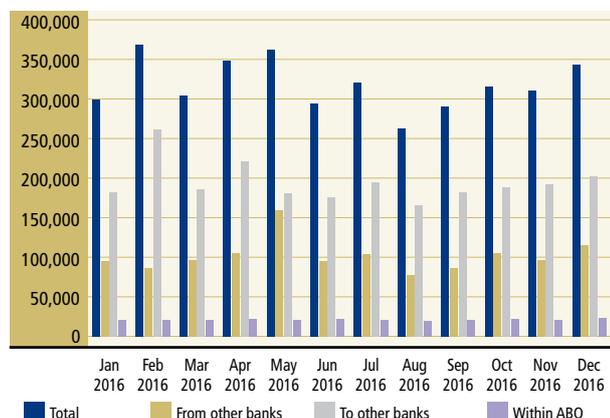
■ ABO – THE CNB’S ACCOUNTING AND PAYMENT SYSTEM

The CNB keeps the accounts of its clients and the internal accounts of the central bank in the ABO system. At the end of 2016, the CNB maintained 21,889 accounts, of which 3,069 internal accounts, 3,284 employee accounts and 15,536 accounts of legal entities (14,983 of which were Treasury accounts in the Czech currency and 193 were Treasury accounts in the euro). Treasury accounts are subordinated to the Single Treasury Accounts, on which state budget revenues and expenditures and other financial operations of the state are realised.

Most clients use the ABO-K internet banking system to manage their accounts. In all, 11,518 users were registered in the system as of the end of the year.

The following chart shows the average daily numbers of accounting transactions processed in individual months. The ABO system processes more than 700,000 transactions a day on peak days. The total number of transactions increased by 6.7% and the number of client orders rose by 7.1% compared to 2015.

ABO – average daily number of transactions



■ SUPERVISION OF PAYMENT SYSTEMS

Under the Act on the CNB, one of the CNB’s objectives is to contribute to the safety, soundness and efficiency of payment and settlement systems and the development thereof. This task is carried out as part of payment system oversight. An assessment of the CERTIS system, which is the only systemically important payment system in the Czech Republic, was completed in 2016 in accordance with the international standards of the Bank for International Settlements (Oversight Principles for Financial Market Infrastructures). This was the third assessment of the CERTIS system in the field of payment system oversight. Following an assessment of the requirements placed on the system by these financial market infrastructure principles, it can be stated that the CERTIS payment system is compliant with the required principles. The processing of payment transactions in this system is of high quality, reliable, secure and fast. The system is transparent and the users are satisfied with its services.

The CNB also continued to monitor Clearstream Operations Prague s.r.o. In accordance with a memorandum of understanding signed with the central bank of Luxembourg, it focused on operational risk, measures to mitigate operational risk and the adequacy of the internal controls applied by this company.

■ FINANCIAL MARKET OPERATIONS

The CNB implements monetary policy by means of a system of instruments. The main ones include interest rate operations (repo operations and automatic facilities), foreign exchange interventions and reserve requirements. Interest rate operations play a pivotal role in steering short-term interest rates on the interbank market. The CNB Bank Board sets three interest rates: the two-week repo rate, the discount rate and the Lombard rate. The main monetary policy rate is the two-week repo rate. The discount and Lombard rates provide the floor and ceiling respectively for short-term interest rates on the money market. Interest rates remained unchanged at technical zero in 2016, i.e. the discount rate and the repo rate stayed at 0.05% and the Lombard rate at 0.25%.

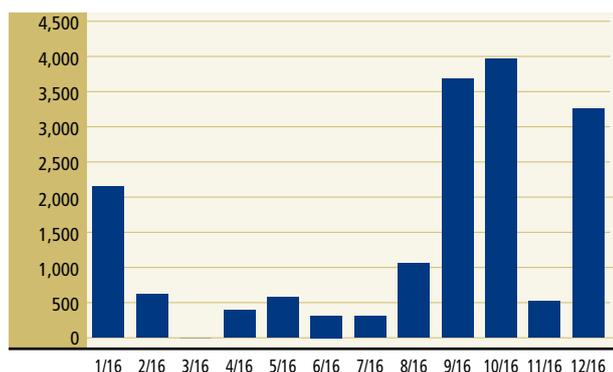
Last year, the CNB continued to use the exchange rate as an additional instrument for easing monetary policy, with a commitment to intervene if needed to weaken the koruna against the euro so that the exchange rate of the koruna was kept close to CZK 27 to the euro. The foreign exchange interventions amounted to EUR 16.851 billion. The interventions intensified in September in connection with the expected exit from the exchange rate commitment. Foreign exchange interventions were the main factor affecting growth in koruna liquidity.

The CNB influences the liquidity of the banking sector through interest rate operations so as to maintain an optimum liquidity level for compliance with the reserve requirement. This ensures that short-term interest rates are stable at the desired level. The main instrument for managing short-term interest rates is the repo, announced three times a week with a maturity of 14 days. Repos are used for absorbing excess liquidity from the banking sector. The liquidity absorbed is remunerated at the two-week repo rate at most.

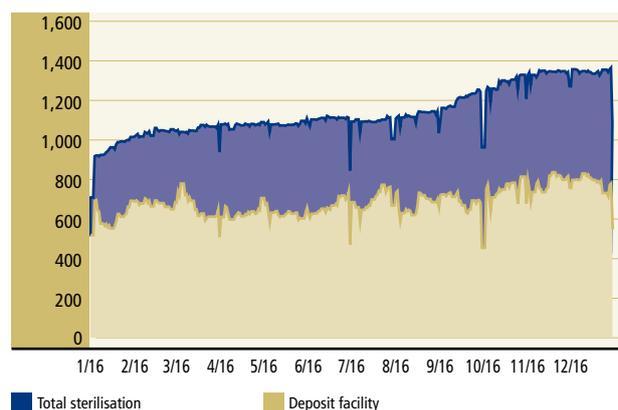
The CNB's monetary policy instruments also include two "automatic" facilities – the marginal lending facility and the deposit facility. Under the lending facility, the CNB lends funds to banks overnight in the form of a repo operation at the Lombard rate. The deposit facility gives banks the option of making overnight deposits with the CNB at the discount rate. The deposit facility was used a great deal during 2016, as the discount rate was equal to the repo rate. Recourse to the lending facility was rare.

The total average amount of excess liquidity absorbed was CZK 1,138 billion. Of this, 60% was absorbed through the deposit facility and 40% through repo operations. The CNB also executed collateral exchanges. These were technical operations in which the CNB usually exchanged a security settled in the Central Securities Depository for a security settled in the Short-term Bond System (SKD). The aim of these operations was not to affect the banking sector's excess liquidity, but to provide liquid securities to banks, for instance for obtaining intraday credit.

Size of forex interventions (in EUR millions)



Excess liquidity (in CZK billions)



The CNB also has liquidity-providing instruments (two-week liquidity-providing repos and foreign exchange swaps) in its toolkit. These were launched in October 2008 as a result of the outbreak of the financial crisis and are important for the stability of the domestic financial market. Although they were not used actively by banks in 2016, the CNB considers it appropriate to keep them available given the volatility in the financial markets.

■ INTERNATIONAL RESERVES MANAGEMENT

The CNB manages its international reserves, which are the central bank's foreign assets in convertible currencies. They are used mainly to support the CNB's independent monetary policy-making and as a source of foreign exchange liquidity for CNB clients. The size and structure of the reserves are published regularly in the *Financial markets* section of the CNB website. At the year-end, the reserves totalled CZK 2,198 billion in koruna terms, equivalent to EUR 81.3 billion or USD 85.7 billion. This represented almost 47% of GDP.

Currency structure of international reserves assets as of 31 December 2016

(in portfolio currency)

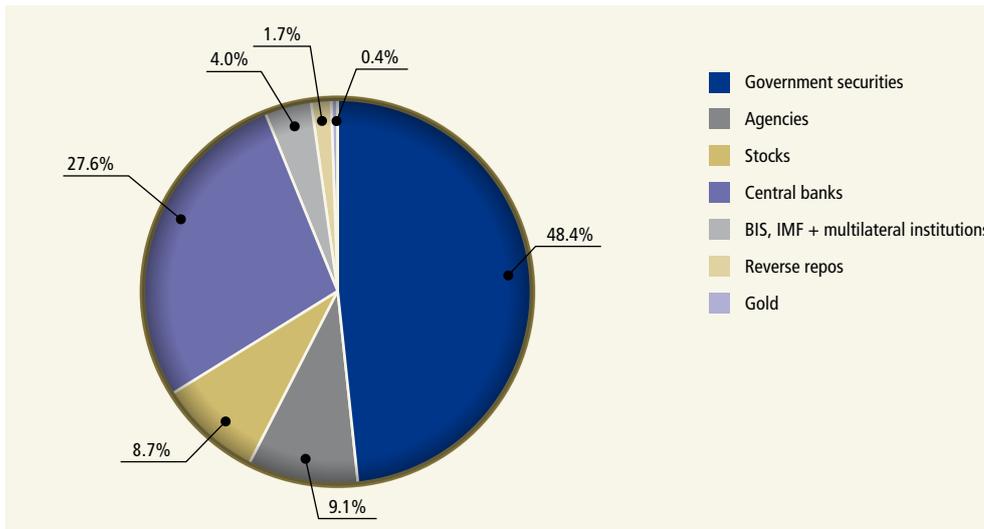
Euro	53,333 million
US dollar	18,984 million
Canadian dollar	11,829 million
Australian dollar	6,504 million
Swedish krona	15,081 million
Japanese yen	333,586 million
British pound	1,022 million
Special drawing rights	799 million
Gold	9.76t

Note: The data in the table are not adjusted for liabilities; part of the USD assets are diversified into JPY and GBP through currency forwards.

The CNB invests the international reserves in accordance with the principles of its reserve management policy and subject to investment opportunities and the situation on the relevant markets. The largest part of the reserve portfolio is invested in debt securities issued by selected governments of advanced countries, selected government-guaranteed bonds or bonds issued by top-rated multilateral institutions. Other instruments used for international reserves management include (in order of significance): shares, repos, specific covered bonds, deposits with central banks, futures, and interest rate, currency and equity swaps. All derivatives transactions are backed by financial collateral.

Investment allocation as of 31 December 2016

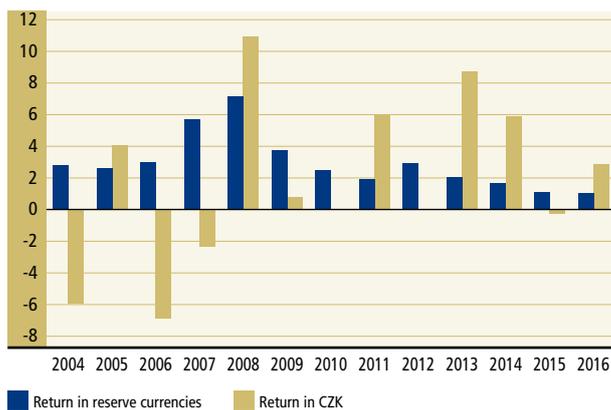
(shares in %)



The international reserves recorded a year-on-year rise in koruna terms due to foreign exchange interventions (CZK +432.6 billion), external flows into the portfolio (CZK +116.2 billion), positive net exchange rate income (CZK +27.5 billion) and portfolio returns (CZK +20.6 billion). External flows arise from transactions for CNB clients, which are specified by the Act on the CNB (the most important clients are Czech ministries and government organisations). The euro flows into the international reserves portfolio were partially reallocated into US dollars during 2016.

The individual portfolios recorded the following returns in 2016: euro 0.66%, US dollar 0.64%, Canadian dollar 1.73%, Swedish krona 1.20% and Australian dollar 3.54%. The weighted average of the return on the portfolios in reserve currencies was 1.01%.

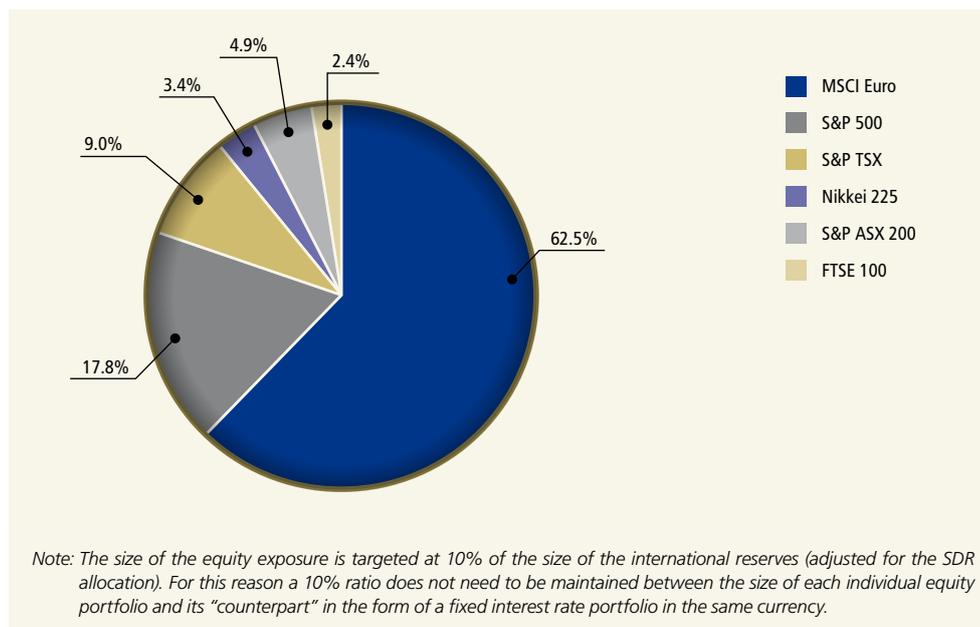
Comparison of the total return on international reserves in 2016 with previous periods (in %)



As regards asset allocation, most of the international reserves are managed in internal portfolios made up of fixed-interest money and capital market instruments. The equity portfolios managed by BlackRock and State Street Global Advisors account for around 10% of the reserves and are invested on the following markets using the relevant benchmark indices: European (MSCI Euro), US (S&P 500), UK (FTSE 100), Japanese (Nikkei 225), Canadian (S&P TSX) and Australian (S&P ASX 200). The managers of this part of the CNB's international reserves follow the Global Investment Performance Standards (GIPS).

Structure of the equity portfolio as of 31 December 2016

(shares in %)



Claims on the International Monetary Fund (IMF) and gold are another part of the reserves. The financial position vis-à-vis the IMF, which amounted to SDR 799 million at the end of 2016, decreased during the year due to the early repayment of a bilateral loan totalling SDR 11.6 million, and the SDR holdings dropped by almost SDR 300 million. As part of the gold was used for coin production in 2016, gold holdings amounted to 9.76 tonnes at the end of 2016.

■ THE CNB AS THE BANK OF THE STATE

The Czech National Bank provides banking services for the state and the public sector under the Act on the Czech National Bank and the Act on Budgetary Rules, i.e. it maintains accounts and provides payment services and services relating to liquidity management of the Single Treasury Accounts.

In 2016, the CNB continued to work with the Ministry of Finance in managing Treasury liquidity, safeguarding the smooth operation of the payment system and streamlining those processes. An amendment to the Act on Budgetary Rules entered into force in the first half of the year. Among other things, this amendment expanded the Single Treasury Accounts to include accounts of health insurance companies and unions of health insurance companies. Subsidised organisations and the Railway Transport Route Administration also gradually transferred all their accounts to the CNB during the year in accordance with the nine-month time limit for doing so stipulated in the law. As of 31 December, the CNB maintained 15,200 accounts for the state and the public sector. A total of 319,000 transactions took place on the Treasury accounts on average per day. Treasury clients now almost exclusively use internet banking. Only 0.3% of orders are in paper form.

The CNB is also involved in the Integrated Treasury Information System (the fund reservation system for the budget expenditure of state organisational units). This means in practice that in the event of a payment (expenditure) from the state budget account, the relevant state organisational unit reserves in the Treasury system the corresponding amount from the budget assigned to it for the given fiscal year, and then sends the payment order to the CNB for execution. The order is accepted for execution only after the reservation has been verified.

■ SUPPORT FOR TREASURY LIQUIDITY MANAGEMENT

The CNB is responsible for the daily consolidation of individual accounts subordinated to the Treasury, as specified by the budgetary rules, under the koruna-denominated and euro-denominated Single Treasury Account (STA). The koruna-denominated STA includes, for example, state budget revenue and expenditure accounts, state financial assets and liabilities accounts, revenue and customs offices' accounts, state funds accounts and the National Fund accounts. The euro-denominated STA includes above all the funds of the National Fund, euro debt service funds and foreign funds of state organisational units. The CNB works very closely with the Ministry of Finance to manage daily liquidity on the STA. This primarily involves compiling a daily estimate of revenues and expenditures on accounts subordinated to the STA and monitoring the actual flows of funds during the day. The size of the Ministry of Finance's money market operations, especially short-term investment of STA liquidity, is set on the basis of this activity. If a shortage of STA liquidity arises (particularly in a situation of sudden adverse developments in financial markets), the Ministry of Finance can also use these operations to make loans. Thanks to strict liquidity management throughout the business day, the balance on both STAs is maintained at just a few millions even though transactions worth billions of korunas or euros are settled every day.

The system of aggregation of Treasury funds under the STA increases the amount of available liquidity that can be used to finance a state budget deficit during the year. The long-term nature of these resources meanwhile allows for effective planning of government bond issues. This generates budgetary savings by reducing debt servicing costs and lowering the refinancing risk of the state.

■ SUPPORT FOR STATE DEBT FINANCING

In the area of state debt management, the CNB carries out primary sales of both short-term and long-term government bonds for the Ministry of Finance and acts as administrator of the issues. In 2016, the CNB organised 18 auctions of T-bills, with sales totalling almost CZK 25.445 billion. The CNB also executed 43 auctions of government bonds, with sales amounting to CZK 192 billion. As administrator, the CNB made coupon payments for government bonds and payments of principal on six maturing issues.

It also organised coupon payments and repayments of principal for issues of government saving bonds.

■ ECONOMIC RESEARCH

Economic research at the CNB helps create an analytical and knowledge base for monetary and macroprudential policy-making and the development of the central bank's human capital. Details on research publications, seminars and conferences, and other research activities can be found in the *Economic research* section of the CNB website.

In 2016, a total of 12 internationally reviewed articles were published in the CNB Working Paper Series. These articles cover a wide range of subjects, from empirical analyses of the real economy, through macroeconomic modelling of fiscal and monetary policy, to financial stability. Two issues of the CNB Economic Research Bulletin also came out, presenting the research results in a non-technical manner. The May issue focused on modelling of the labour market and the November issue featured papers concerning the financial cycle and the interaction between monetary and macroprudential policy. An international comparison, including of the quality of research outputs, is contained in the report *CNB Economic Research in 2016*.

In collaboration with the European Central Bank, the CNB organised a "Productivity and External Rebalancing" conference in April for the ESCB's Competitiveness Research Network. The traditional Research Open Day, whose speakers included Croatian National Bank Governor Boris Vujčić as guest of honour, was held in May. In October, the CNB held a conference on



“Challenges for Financial Stability in Europe” in partnership with the Institute of Economic Studies of the Faculty of Social Sciences at Charles University. The CNB also organised several public seminars jointly with the Czech Economic Society. The speakers included global experts in economic history, monetary systems and the labour market.

In 2016, the CNB was also involved in the ESCB Competitiveness Research Network, the Wage Dynamics Network and, as an observer, the Household Finance and Consumption Network.

At the end of the year, the CNB decided to re-organise its economic research to strengthen the link between research work and the central bank’s core activities while maintaining the professional quality of research publications. At the decision of the Bank Board, the Economic Research Department was incorporated into the Monetary Department and the Financial Stability Department at the beginning of 2017. The CNB’s overall research capacity was increased.

■ INTERNATIONAL RELATIONS

■ EUROPEAN CENTRAL BANK, EUROPEAN SYSTEM OF CENTRAL BANKS AND EUROPEAN SYSTEMIC RISK BOARD

The CNB is a member of the European System of Central Banks, so the CNB Governor and Vice-Governor attend – usually four times a year – the meetings of the General Council of the European Central Bank (ECB), where the governors of all the central banks of the EU countries are represented. Documents on macroeconomic, fiscal, monetary and financial developments around the world, in the EU and in the euro area were discussed at this forum in 2016. The meetings also dealt with, among other things, an assessment of compliance with the prohibition of monetary financing, the impacts of the persisting environment of low rates on the economy, fiscal policies and inflation in the EU and monetary-policy measures of non-euro area central banks. Another key topic discussed was the Brexit referendum, the financial markets’ response to its outcome, and the related action taken by the Bank of England.

CNB representatives were also involved in the work of the ESCB’s 13 committees and numerous sub-committees and working groups. The CNB processed a total of 85 documents in the written consultations of the ECB General Council on draft EU and Member State legislation and ECB documents. In ten cases the CNB responded in the form of a Governor’s letter to the President of the ECB. It commented on ECB opinions on draft EU legislative acts on securitisation and an amendment to the regulation on prudential requirements, a draft regulation in order to establish a European

Deposit Insurance Scheme (EDIS), a draft amendment to the Fourth Anti-Money Laundering Directive and a draft EU Council decision on a unified representation of the euro area in the IMF. In addition, comments were made on legislative proposals of EU Member States, specifically two amendments to the Croatian central bank law, Polish legislation on interbank fees for card payment transactions, Finnish legislation on the internal organisation of the Finnish supervisory authority in respect of the Single Supervisory Mechanism (SSM), an amendment to the Irish central bank law and a draft Belgian law abolishing the state guarantee provided in connection with emergency liquidity assistance.

The CNB Governor and a Vice-Governor also attended the regular meetings of the General Board of the European Systemic Risk Board (ESRB), which dealt with the assessment of systemic risks to the EU financial market and the development of a macroprudential policy framework. In 2016, the ESRB addressed, among other things, property market risks, especially in the residential property sector, and adopted recommendations on closing real estate data gaps. It also issued warnings for eight member states (not applicable to the Czech Republic) on medium-term residential real estate vulnerabilities. The ESRB also concentrated on the impacts of low interest rates on financial stability and the concept of safe assets. The CNB was compliant with 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 setting countercyclical buffer rates for exposures to third countries.

■ RELATIONS WITH EU COUNCIL, EU COMMITTEE

Although the CNB has no direct representation in the EU Council, except in some of its advisory bodies, such as the EU Council's Economic and Financial Committee (EFC), it actively participates in coordinating the Czech Republic's positions for negotiations through the EU Committee at both the government level and the working level. The CNB was thus involved in the preparation of the Czech Republic's positions relating to its area of competence. The main topics included the future course of European integration and the deepening of the Economic and Monetary Union in the context of Brexit and the continuation of the banking union project. The Commission's proposal to create a European Deposit Insurance Scheme (EDIS) was also discussed. Technical negotiations on the future form of the backstop for the Single Resolution Fund were also launched in the autumn. The European Commission submitted an extensive set of legislative proposals to reduce risks in EU countries' banking sectors in November. The CNB also paid attention to the regulatory approach to sovereign exposures, measures to combat the financing of terrorism (including regulation of virtual currencies and pre-paid cards), proposals concerning the capital markets union and enhanced cooperation in the area of the financial transaction tax.

■ INTERNATIONAL MONETARY FUND

The CNB Governor, who represents the Czech Republic on the Board of Governors of the International Monetary Fund (IMF), attended the yearly spring and annual meetings of the IMF in Washington. Elections of IMF Executive Directors for the period from 1 November 2016 to 31 October 2018 were held in the autumn. In accordance with the constituency agreement, Michaela Erbenová was elected Executive Director for the Central European and Eastern European constituency. This meant that a representative of the Czech Republic became a member of this key IMF body for the first time in more than 70 years.

The ratification of the 2010 quota and governance reforms was completed at the start of the year. As a result of this, the IMF quotas were increased from SDR 238.2 billion to the current SDR 475.0 billion. The reform also included a change in the distribution of the quotas. This led to an increase of more than 6% in the share of emerging economies in the total quotas. The Czech Republic also participated in the quota increase process; its quota was increased from SDR 1,002.2 million to SDR 2,180.2 million on 23 February. The completion of the ratification of the reforms allowed work to commence on the fifteenth general revision of quotas, the schedule

for which was approved by the Board of Governors of the IMF in the autumn. This included a postponement of the completion date from 2017 to 2019. Owing to the time shift in the revision of quotas and the need to maintain the current level of IMF funds, the IMF's Executive Board invited the existing bilateral lenders to provide new bilateral loans to the IMF to replace the existing loan agreements of 2012–2013, which expire between October 2016 and November 2018. The CNB is one of these lenders, having made two bilateral loan agreements with the IMF. Their drawdown balance was zero on 31 December. In addition, the CNB continued to be involved as a creditor in IMF assistance provided under the financial transactions plan to member countries experiencing balance of payments difficulties.

The main topics discussed at the IMF with the direct or indirect involvement of the CNB were the strengthening of the international monetary system, global financial safety nets, the adequacy of IMF funds, proposals for new credit instruments and the monitoring of capital flows and related risks. Given the IMF's involvement in the programmes of some euro area countries, the Independent Evaluation Office of the IMF issued a comprehensive report assessing the IMF's role during the crisis and its participation in the programmes in Greece, Ireland and Portugal.

An IMF Article IV mission to the Czech Republic took place in May. From the CNB's perspective, the key issues were the discussion about monetary policy (including the use of the exchange rate as a monetary policy instrument), the inflation outlook, the situation in the banking sector and the situation in the financial stability area. The IMF's final report advocated, among other things, maintaining the accommodative monetary policy stance and continuing to focus on inflation targeting and recommended that modalities be prepared for the eventual exit from the exchange rate commitment.

■ CNB ACTIVITIES IN OTHER INTERNATIONAL ORGANISATIONS

The CNB Governor attended the regular meetings of central bank governors of the member countries of the Bank for International Settlements (BIS) and participated in the annual meeting of the European Bank for Reconstruction and Development (EBRD) in London on 11–12 May. The CNB was also represented at the regular meetings of vice-governors and at selected meetings of the Central Bank Governance Group and the Basel Consultative Group, which is part of the Basel Committee on Banking Supervision. A meeting of the Basel Consultative Group was held at the CNB on 4–5 October. The CNB also regularly attended the meetings of a number of OECD working bodies, particularly the Economic Policy Committee and the Committee on Financial Markets, and contributed to the preparation of the OECD Economic Survey which was published in June.

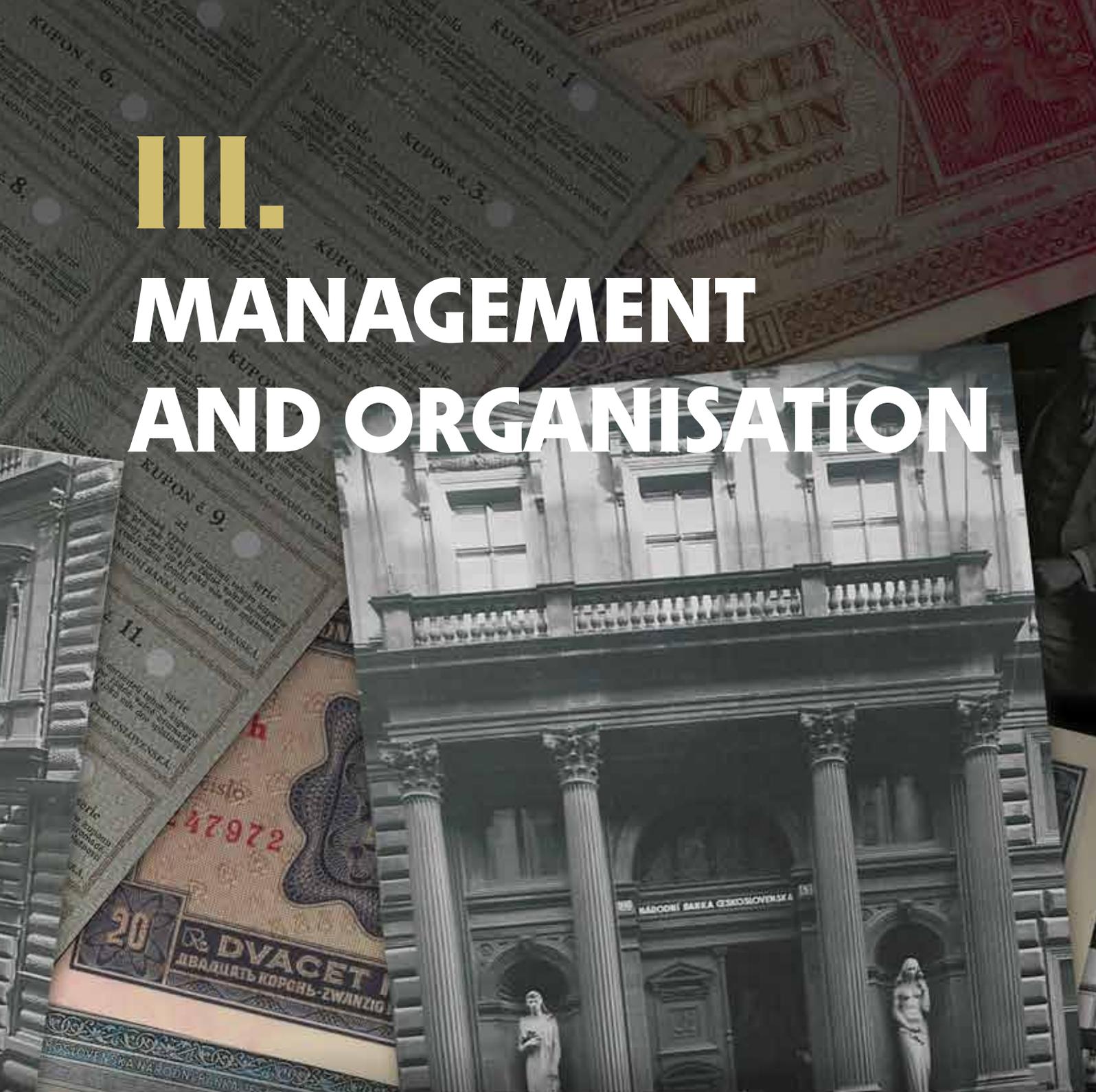
■ FOREIGN TECHNICAL ASSISTANCE

The CNB organised 15 events in 2016 to provide technical assistance to its foreign partners. Six seminars were attended by 93 experts from 31 central banks, and eight consultations took place for 26 participants from nine central banks and supervisory authorities, mainly from Burma, China, Macedonia and Azerbaijan. The CNB also provided expert assistance in the form of consultations and lectures abroad. The main partner central bank in the area of technical assistance in 2016 was the National Bank of Ukraine. CNB experts also provided technical assistance in Belarus and Albania in partnership with the IMF as part of its missions.



The Banking Office of the Ministry of Finance and later the National Bank of Czechoslovakia chose the former Schebek Palace located at No. 936 Bredovská Street (today's Politických vězňů Street) in Prague to be its headquarters and head office. The palace had

been used for banking purposes by the Prague branch of the Austro-Hungarian Bank since 1890. It had originally been a neo-Renaissance palace containing luxury apartments, built as a status symbol in 1870–1872 according to a design by the architect Vojtěch Ignác Ullmann.



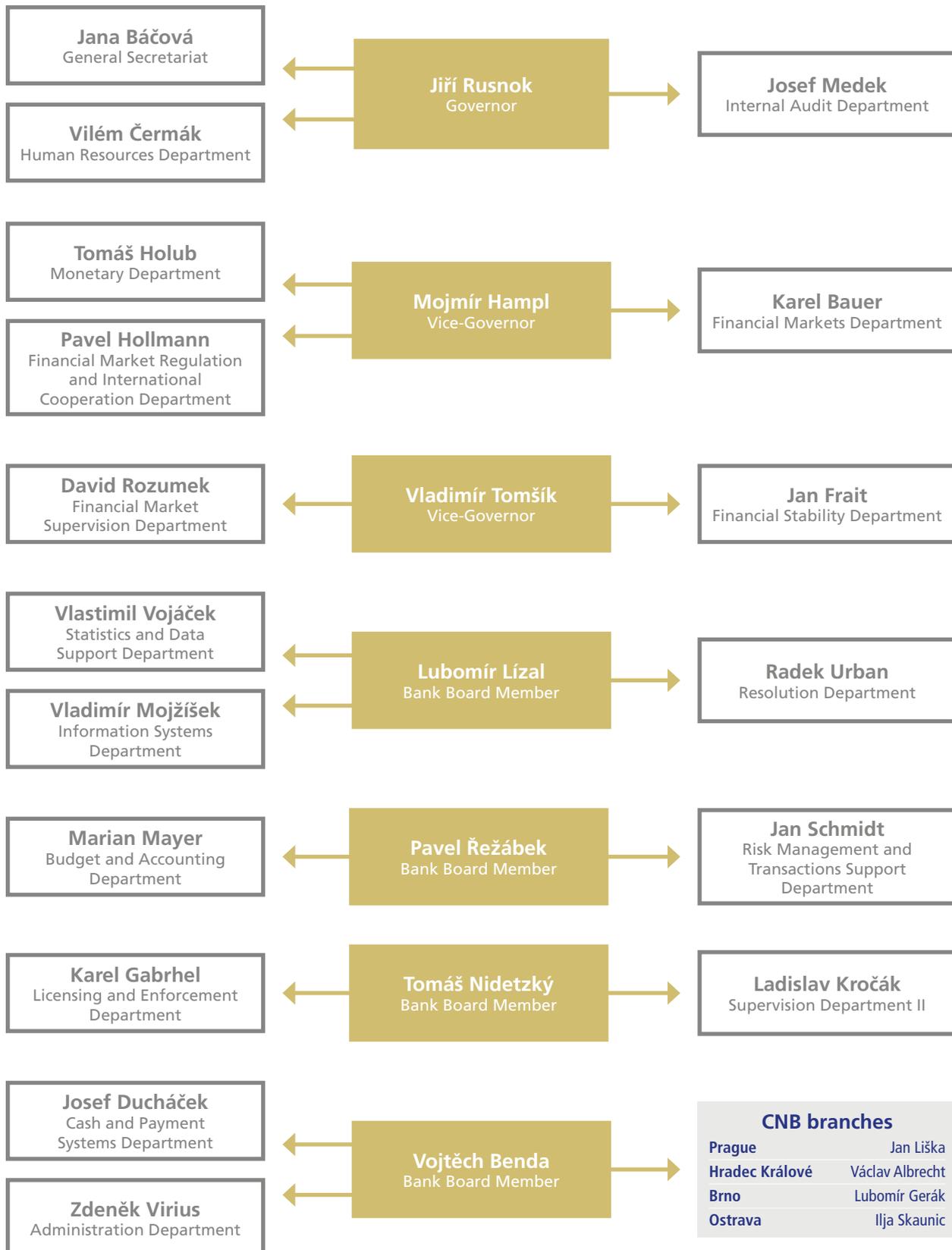
III. MANAGEMENT AND ORGANISATION

After the establishment of Czechoslovakia, the central bank needed significantly larger premises. It was therefore decided in 1919 to acquire a block of houses lying between Bredovská, Jindřišská and Růžová streets. Plans were made to build a modern banking building in its place. The

first step was to build a banknote printing works, designed by the architect Josef Sakař, and to alter the ceremonial rooms of the palace. Preparatory construction work was launched in the second half of the 1930s, but the war stopped the implementation of the project.

MANAGEMENT AND ORGANISATION

Organisational chart as of 31 December 2016



The CNB's organisational structure consists of a headquarters in Prague and four branches in Prague, Hradec Králové, Brno and Ostrava. In addition, the CNB is represented in České Budějovice, Plzeň and Ústí nad Labem by regional offices of its headquarters, where selected units of the Cash and Payment Systems Department, the Licensing and Enforcement Department and the Supervision Department II are located (see the CNB website: *About the CNB > CNB offices in the Czech Republic*).

The CNB has a two-tier management system. Fundamental decisions relating to the fulfilment of the CNB's primary objective, namely to maintain price stability, and other tasks corresponding to the CNB's responsibilities are taken by the Bank Board. Responsibility for implementing the Bank Board's decisions and the day-to-day running of the bank is delegated to the executive directors of departments and branches.

■ BANK BOARD

The members of the Bank Board, in addition to collectively managing and deciding, oversee the activities performed by the CNB's organisational units according to a scheme defined by the Bank Board (see the organisational chart as of 31 December 2016).



In accordance with an amendment to the Act on Certain Measures against Money Laundering and Terrorist Financing (Act No. 368/2016 Coll.), the Bank Board is now entrusted with approving the system of internal principles, including risk assessment. The Bank Board also approves the annual evaluation report for this area.

■ EXECUTIVE DIRECTORS OF DEPARTMENTS AND BRANCHES

These senior officers of the CNB carry out the decisions taken by the Bank Board and are responsible – subject to the CNB's development strategy and plans for the individual areas of competence of the CNB – for the performance of the activities of the units they manage as defined in the Organisational Statute. The executive directors set targets and tasks for the staff under them and perform the employer's rights and duties under labour law in respect of those employees. Their powers and responsibilities relate not only to direct management activities, but also to methodological management activities in their competence, cooperation with other organisational units of the bank and with external partners in the Czech Republic and abroad, and to the submission of proposed solutions to issues of fundamental significance to the Bank Board.

■ HEADQUARTERS

The organisational units of CNB headquarters are departments (subdivided into divisions). In their areas of competence defined in the CNB Organisational Statute, they are responsible for the implementation of the bank's main and ancillary activities and for methodological management within the headquarters and in respect of branches.

Coordination and advisory bodies – committees, commissions and project teams – are used to implement Bank Board decisions and perform activities that cover the areas of competence of more than one organisational unit and that depend on close and efficient cooperation between them.

The competences of the CNB and its organisational units were amended in 2016 on the basis of new legal regulations. New legislation stemming from an amendment to the Act on Certain Measures against Money Laundering and Terrorist Financing regarding the system of internal principles and risk assessment was incorporated into the competences of the Cash and Payment Systems Department and the Risk Management and Transactions Support Department. The Licensing and Enforcement Department was given a new power to publish the schedule of fees for providing information at the CNB under the Freedom of Information Act. The Information Systems Department was entrusted with the CNB's new duties arising under the Act on Trust Services for Electronic Transactions and the Act on Cyber Security.

In 2016, several organisational changes were made at the CNB's headquarters at the decision of the Bank Board. Two new divisions were established in the Financial Market Supervision Department as of 1 May 2016, namely the Financial Market Supervision Division (LSIIs) and the Financial Market On-Site Inspection Division III. With effect from 1 July 2016, a new Supervision Department II was established, covering the CNB's new activities ensuing from the Consumer Credit Act and other activities previously performed by the Consumer Protection Department, the Retail Distribution Supervision Department and the Financial Market Supervision Division (LSIIs) of the Financial Market Supervision Department, which were abolished on 30 June 2016. The new Supervision Department II thus performs comprehensive supervision of compliance with all the duties arising under the Consumer Credit Act by all consumer credit providers and intermediaries. At the same time, responsibility for the preparation and interpretation of the Consumer Credit Act and relevant European legal acts was transferred from the Consumer Protection Department to the Financial Market Regulation and International Cooperation Department. Competences in the area of organising the CNB's professional and social events and foreign technical assistance were divided so that the General Secretariat and the Human Resources Department, respectively, became responsible for the methodology and the Administration Department became responsible for the operational area.

In late 2016, the Bank Board decided on further organisational changes effective from 1 January 2017. These included the abolition of the Economic Research Department, whose work was transferred to the Monetary Department and the Financial Stability Department, the transfer of the EU and International Organisations Division from the General Secretariat to the Financial Market Regulation and International Cooperation Department and the establishment of a new Organisational and Protocol Division within the General Secretariat. Furthermore, some activities of the Human Resources Department were transferred to the Budget and Accounting Department and the Administration Department. The former now performs duties relating to staff loans and travel insurance of CNB staff on business trips and the latter is responsible for the areas of health care for CNB staff and recreational, cultural and sports activities at the CNB.

■ BRANCHES

The CNB's branches are divided into divisions. They represent the bank in their regions of jurisdiction and are contact points for the CNB's relations with state and local authorities and legal and natural persons that have registered offices or residence addresses in the relevant region when dealing with the CNB under the relevant legal rules. This does not affect the right of the said entities to deal with the CNB's headquarters in Prague. The main tasks of the CNB's branches include managing money reserves, maintaining accounts under the Act on Budgetary Rules and the accounts of other CNB clients falling within their fields of competence, and making payments for their clients.

The Bank Board decided to extend the activities of the Brno branch to include running the CNB Exhibition located on its premises.

■ HUMAN RESOURCES

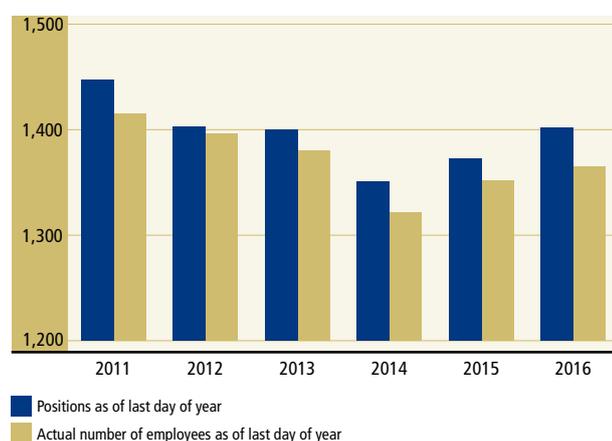
The main objective of human resources management at the CNB is to expand the potential of its employees, the emphasis being on utilising that potential in accordance with the central bank's objectives and strategy. To maintain a high standard of work performance, the CNB creates a friendly working environment and motivates its staff to be highly efficient. Special attention is paid to continuously developing employees' professional standards and enhancing the quality of managerial work at all levels of management at the CNB.

■ NUMBER OF POSITIONS AND EMPLOYEES

As in previous years, the CNB continued to strengthen its capacity to perform its key activities, in particular financial market supervision. The number of systemised positions thus increased slightly in late 2016, reaching 1,402 as of 31 December.

As of 31 December, the CNB had 1,365 employees, 13 more than at the end of 2015. A total of 109 new employees were taken on and 92 staff terminated their employment last year. The total staff turnover rate was 6.9%, comparable with that recorded in years when no major organisational changes were made. The average length of employment at the CNB increased slightly to 13.8 years.

Number of employees and number of positions (in %)



■ RECRUITMENT AND SELECTION

The CNB systematically seeks skilled employees. To fill vacancies, it uses internal and external selection procedures, within which it headhunts experienced experts as well as recruiting promising candidates whose potential it then develops. To attract potential suitable external candidates, the CNB advertised on its website, directly contacted people who had registered an interest in working for the CNB and also advertised on a commercial job portal and on the CNB's official Facebook page. Besides numerous expert positions in this area, the CNB also filled senior management positions from both internal human resources and the labour market. The constant demand for new staff is leading to continuous adjustment of the CNB's recruitment strategy, which was created in previous years primarily in connection with the reorganisation of the branch network.

■ EDUCATION, AGE AND GENDER STRUCTURE

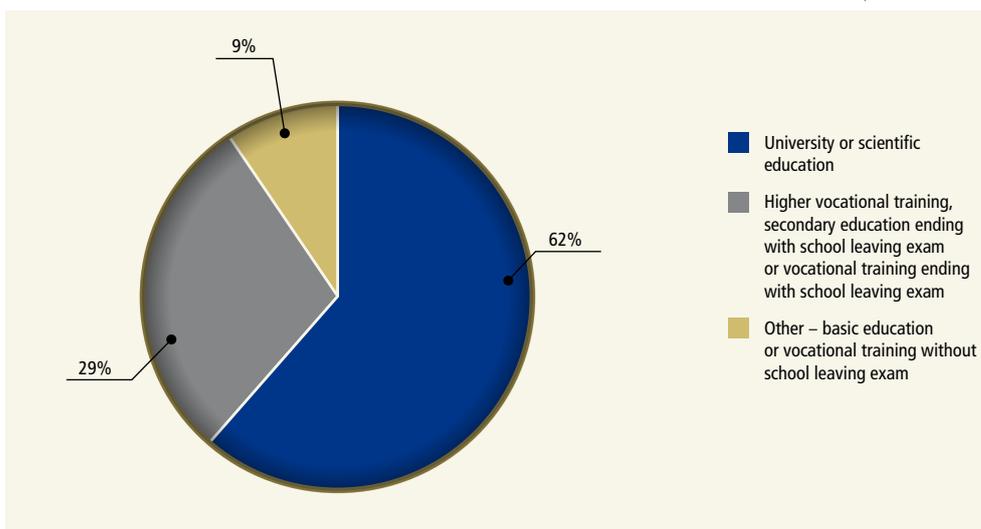
The CNB has long had a balanced age, gender and skills structure of employees. This supports its equal opportunities policy for all job applicants and employees.

The education structure of employees remained unchanged. In 2016, university graduates made up 62% of the total, while employees with higher vocational training or secondary school education ending with a school leaving exam (including vocational training ending with a school leaving exam) accounted for 29% and employees with vocational training without a school leaving exam or with basic education recorded a 9% share. This skills distribution, dominated by highly educated employees, reflects the expertise required by the CNB.

As in previous years, the age structure of employees did not show any major year-on-year change. All age groups are evenly represented. Employees aged 41–45 account for the largest share (19%). The diverse age composition of working teams ensures that those teams function properly and smoothly absorb changes reflecting their life cycle. The average age of employees increased by around four months to 45.4 years in 2016 compared to 2015.

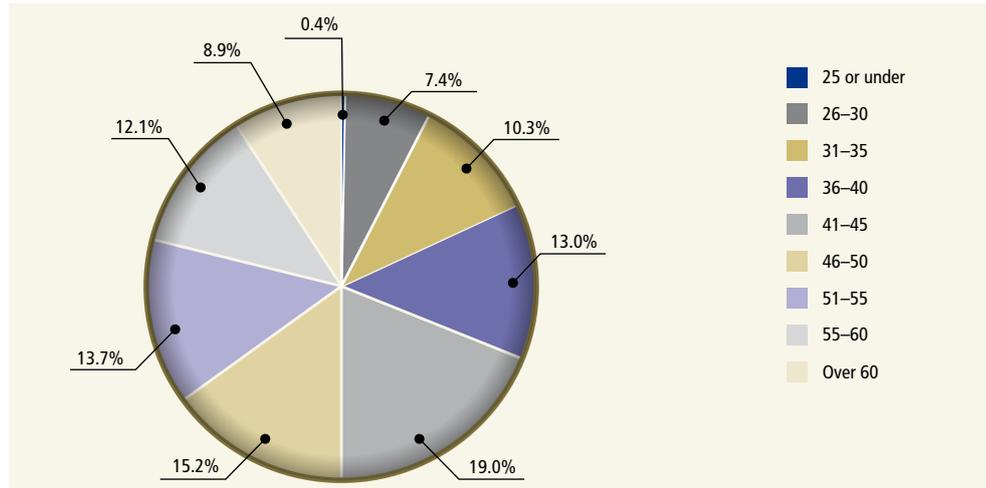
Employee structure by highest level of education attained as of 31 December 2016

(shares in %)



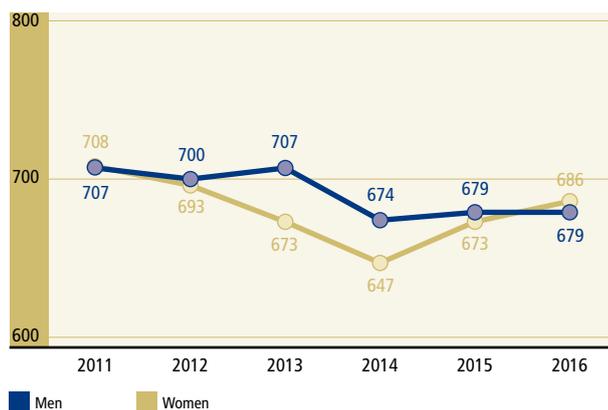
Age structure of employees as of 31 December 2016

(shares in %)



As in previous years, the shares of men and women in the workforce remained balanced in 2016.

Numbers of men and women employed at the CNB



■ INCENTIVE SYSTEM

The CNB's comprehensive remuneration system and performance appraisal system are the key tools for motivating its staff.

The wage system is a strategic tool for long-term motivation of employees. It significantly helps the CNB attract high-quality job applicants on the one hand and enables it to motivate, stabilise and develop its existing staff on the other. At the same time, it enhances the CNB's competitiveness in the labour market at sustainable personnel expense levels.

The staff performance appraisal system fulfils a number of important roles. Performance appraisal enables the CNB to evaluate employees' performance in the previous period and to identify their main development needs. It naturally adds value by supporting motivation and identifying talent in the existing workforce.

Personnel expenses, which comprise wage costs, including temporary sick leave payments, obligatory insurance contributions and other social expenses (pension insurance, health care and food allowances), training expenses and employee benefits, amounted to CZK 1,403 million in 2016, up by about 6.7% on a year earlier.

Salaries of Bank Board members in 2016

(in CZK)

	Gross salary ¹⁾	Net salary ²⁾
Jiří Rusnok ³⁾	4,414,685	3,171,257
Mojmír Hampel	4,232,930	3,066,778
Vladimír Tomšík	4,257,436	3,029,611
Lubomír Lízal	3,564,739	2,554,670
Vojtěch Benda ⁴⁾	1,829,588	1,305,542
Pavel Řežábek	3,571,386	2,559,466
Tomáš Nidetzký ⁴⁾	1,885,787	1,346,090
Miroslav Singer ⁵⁾	2,959,204	2,124,764
Kamil Janáček ⁵⁾	2,009,198	1,407,507

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

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

3) Jiří Rusnok was appointed CNB Governor with effect from 1 July 2016. Until 30 June 2016, he held the post of member of the Bank Board.

4) Vojtěch Benda and Tomáš Nidetzký were appointed members of the Bank Board with effect from 1 July 2016.

5) Miroslav Singer and Kamil Janáček terminated their employment at the CNB as of 31 July 2016.

■ **PROFESSIONAL DEVELOPMENT OF CNB STAFF**

Professional development is one of the cornerstones of human resources management at the CNB. The CNB seeks to ensure systematic and intensive development of staff in their fields of expertise and in the area of personal development and soft skills. Employees can deepen and expand their knowledge and skills through internal training organised at the CNB and training provided by domestic external organisations, and also by attending seminars abroad. Spending on professional development totalled CZK 24.38 million in 2016.

Internal training is focused mainly on developing and deepening expert knowledge and soft skills. However, it also includes training of new staff, which takes the form of seminars and an e-learning induction course.

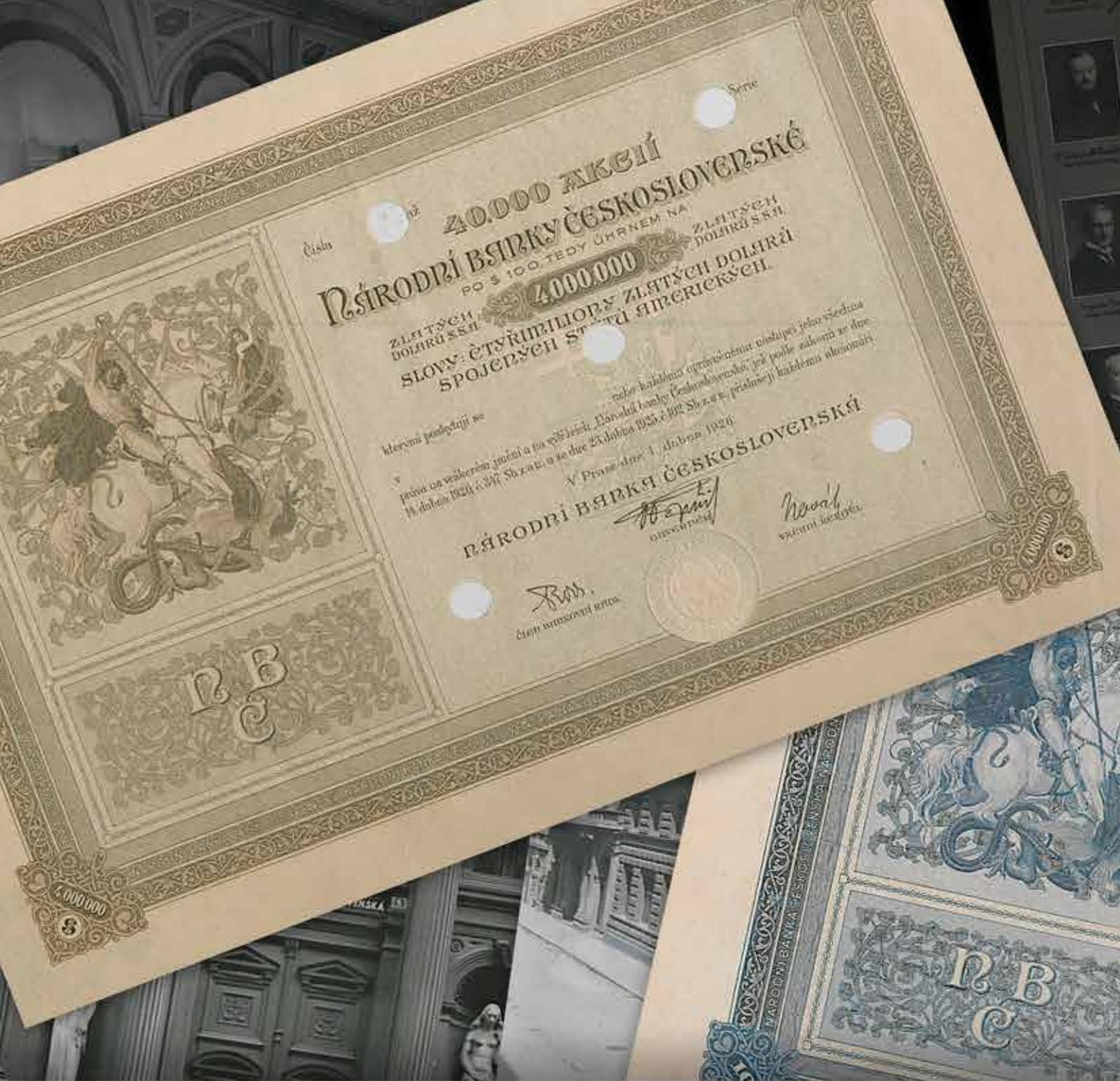
Language training at the CNB takes the form of regular language training, intensive language courses and e-learning. The main goal is to enhance knowledge of specialised terminology and communication skills. Language training also includes courses focused on obtaining international language certificates.

International seminars and workshops are a key element of professional development. Attendance at international training events is necessary for CNB experts mainly because it gives them an opportunity to share information and knowledge with colleagues from partner central banks. Important training events include training in the fields of financial stability, economic modelling and the financial markets. Training events organised by the IMF, the Joint Vienna Institute, the Financial Stability Institute and other organisations are also frequently attended.

As in previous years, employees of supervisory units took advantage of seminars organised by the authorities responsible for supervising the individual sectors of the financial market in the EU (EBA, ESMA and EIOPA) in 2016.

The CNB's active involvement in organising international training events within the ESCB has made it a sought-after and top-rated central bank in this area. In all, 13 international training events for 134 experts from other EU central banks took place at the CNB in 2016. The CNB was also actively involved in organising training events for supervisors under the ESE (European Supervisor Education) initiative in 2016.

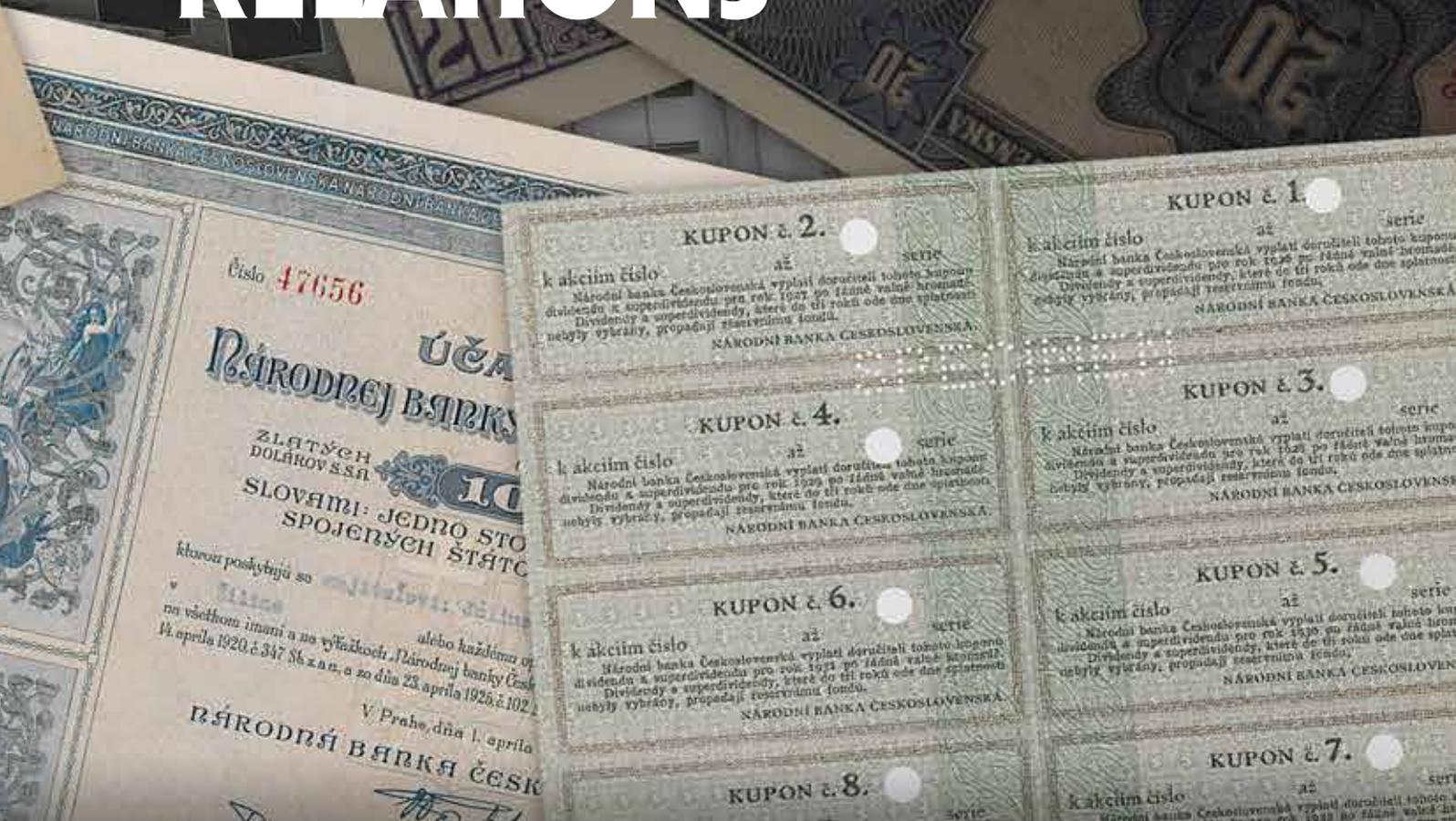




Saint George was one of the main, though unofficial, symbols of the National Bank of Czechoslovakia and featured on its shares. The motif of Saint George was designed by Alois Mudruška, who was also the designer of the new 20-koruna banknote. It has never been reliably explained why he chose this motif for the

bank's shares. The main motif is an engraving based on an 1864 work by Josef Mánes entitled "The Flag of the Říp Association", which is dominated by Saint George on horseback fighting a dragon. The background shows a princess and the Romanesque rotunda of St. George on Říp mountain. The only difference between the

IV. PUBLIC RELATIONS



picture on the share and that on the flag is to be found in the bottom right-hand corner, where the coat of arms of Roudnice nad Labem was replaced by the small coat of arms of Czechoslovakia.

The importance of the St. George motif to the Czechoslovak bank of issue is also apparent from the fact that it was chosen for the design

of the banknote stamp that was planned to be used for stamping banknotes during the post-1945 currency reform. The underprint of the text of the share shows the large coat of arms of the Czechoslovak Republic, with plant motifs and the abbreviation of the bank's name (NBCČ) flowing around it.

PUBLIC RELATIONS

■ EXTERNAL COMMUNICATIONS

In 2016, as in previous years, the CNB's external communications focused mainly on monetary policy. Communication plays a key role in the monetary policy regime of inflation targeting, which is applied by the CNB as well as most central banks in the advanced world. The need to explain the reasons for, and benefits of, the CNB's 2013 decision to use the exchange rate as an additional instrument for easing the monetary conditions receded into the background compared to previous years. On the other hand, the timing and mode of the exit from the exchange rate commitment became a frequent and highly publicised topic during 2016.

In 2016, the CNB introduced two new communications tools – VlogČNB and video interviews – to streamline communication and relations with the general public. Vlogs and video interviews provide central bank representatives with another channel for presenting the institution's activities to the public in more detail and responding to various topical issues, especially in the important period when the CNB wants to communicate to the public that the approaching exit from the exchange rate commitment is the first step towards returning to conventional monetary policy and how that policy works. The first video blog featured Governor Jiří Rusnok, who summarised his work at the central bank to date and shared his plans and visions.

The CNB held an Open Day in June, its sixth since it was formed in 1993. More than 5,000 people did not let this rare opportunity slip. The central theme of the event was the 90th anniversary of the establishment of the National Bank of Czechoslovakia. Visitors could choose from three tour circuits. The first led them through key locations at the bank and showed them how the CNB fulfils its statutory mandate, especially in the areas of monetary policy, money circulation, the payment system and price and financial stability. Visitors were able to weigh a gold brick in their hands and visit the Governor's office and the Bank Board's meeting room. The second circuit offered a visit to the CNB's permanent exhibition *People and Money*. This was complemented with a separate exhibition of the special units of the Czech police in the garages. In the CNB Congress Centre, visitors could take part in discussion lectures given by Bank Board members and view an exhibition on the history of the Commodity Exchange.





The launch of the web portal *Money on the Run* (*Peníze na útěku*; www.penizenauteku.cz) was the CNB's key financial education project in 2016. This project aims to educate young people, especially in the 18–35 age category, in a comprehensible form, helping them not only to manage the family budget, but also to raise their awareness of the CNB's function as the main banking authority in the Czech Republic and an independent guarantor of financial literacy. The CNB created this portal to provide the public with a website where information on financial literacy and family budgets is presented in an easy-to-understand way using visual elements, along with a glossary of basic terms, a guide to personal finance management and relevant examples of real-life situations. The website allows users to test their knowledge of the world of finance and to vet providers of financial products and services.

The CNB also continued to communicate with the public using its official Twitter, Facebook, YouTube and LinkedIn profiles. The CNB handled 1,563 phone queries, 4,358 electronic submissions and 586 written submissions as part of its day-to-day communication with the public in 2016.

■ EXHIBITION

The CNB's *People and Money* exhibition in Prague opened on 2 January 2002. It aims to present a comprehensive picture of Czechoslovak and Czech central banking (past, present and future) and in this context also the function and nature of money. The exhibition is open Tuesday to Friday. Tours are organised at 9 a.m., 11 a.m. and 1.30 p.m. each day, and also at 4 p.m. on Thursday. Visitors can book tours using the booking system on the CNB website. The exhibition is visited mainly by school pupils and students. Around 215,000 people have visited the *People and Money* exhibition in fourteen years.

As public interest in visiting the *People and Money* exhibition in Prague has long been very high, the CNB opened a similar exhibition at its Brno branch, which welcomed 1,405 visitors during 2016. The *People and Money* exhibition in Brno, which opened in autumn 2016, gives visitors a unique insight into the history of money on 32 panels and in 22 showcases and presents a comprehensive overview of the history of the currency in the Czech lands, with an emphasis on regional differences in Moravia. Visitors can view documents on the history of monetary policy and the financial sector, focusing on aspects specific to Moravia and above all Brno. Past and present money, counterfeits and examples of money protection are also exhibited. An exhibition called *Beauty in Glass and Metal* also opened at the CNB's Brno branch in the second half of 2016. It presents to the public the work of one of the most important designers of Czechoslovak and Czech coins Jiří Harcuba (1928–2013), which he bequeathed to the CNB. Several dozen sculptures and glass exhibits document the life-long work of this world-known glass designer, sculptor and medal maker, who also designed the CZK 5 coin. Connected with this exhibition is a model of Jiří Harcuba's studio, also located at the Brno branch.



■ SPECIAL LIBRARY

The primary mission of the CNB's special library is to provide staff and outside specialists with information. To this end, it offers lending, advisory, reference and bibliographic information and research services (searches for information from all available information sources). Its highly specialised collection and access to numerous electronic sources allow users to obtain information in the fields of banking and economics in general, law and computer technology and to some extent in other areas as well. The library maintains and provides access to more than 83,000 publications and 700 periodicals, a large number of research reports and annual reports, and other publications (bank documents, brochures, etc.). An electronic catalogue is being systematically built up in the T Series library information system and is being integrated into the Single Information Gateway operated by the National Library of the Czech Republic. Electronic records are regularly sent to the Union Catalogue of the Czech Republic. The library is open 38 hours a week, Monday to Thursday from 9 a.m. to 5 p.m. and Friday from 9 a.m. to 3 p.m. All information about the library, including the electronic catalogue and contacts, is available in the *CNB special library* section of the CNB website. The library can also be contacted by e-mail at lib@cnb.cz.

■ ARCHIVE

The CNB Archive cares for the archive documents produced by the CNB and its legal predecessors. At the end of 2016, it contained 64 archive collections totalling 5,929.02 linear metres and offering a unique view of the political, economic, social and cultural history of the Czech lands and Central Europe. The CNB Archive's research room is open all year round subject to prior consultation. Anyone interested in obtaining information from, or studying in, the CNB Archive should visit the CNB website (*About the CNB > Archive of the CNB*) or e-mail archiv@cnb.cz.

In 2016, the CNB Archive was involved in several major projects. These included the preparation of the CNB exhibitions *People and Money* and *Beauty in Glass and Metal: Jiří Harcuba (1928–2013)* at the Brno branch and the preparation of historical panels for the CNB's 2016 Open Day.



■ CONGRESS CENTRE

As usual, the CNB Congress Centre, located in the listed building of the former Commodity Exchange, was used as a venue for meetings between the CNB's top management and representatives of other central banks, financial market and trade union representatives, analysts and journalists. The CNB's specialised units hold conferences, lectures, presentations, seminars, ECB committee and working group meetings, quarterly insurance intermediaries' examinations and various training sessions there. Thanks to its flexible spaces and modern technology, the Congress Centre is one of Prague's most popular venues. External partners organise about 50 professional and social events there a year. Clients include public and private institutions – both domestic and foreign – from various fields of activity. The Congress Centre's main tasks in 2016 included hosting international conferences (a conference with the European Central Bank as part of the ESCB Competitiveness Research Network, an IOSCO conference, a conference on financial stability in cooperation with Charles University, a conference of the European Supervisor Education (ESE) initiative and a conference of the Official Monetary and Financial Institutions Forum (OMFIF)). The Congress Centre also hosted two important energy forums in partnership with the Ministry of Industry and Trade and two major medical congresses. The Congress Centre was also involved in organising the CNB Open Day 2016 and other social and professional events organised by the CNB. More information is available in the *Congress Centre* section of the CNB website.

Zpráva revidujícího výboru
valné hromadě akcionářů Národní banky Československé,
předložená v I. řádné výroční schůzi dne 24. února 1937....
o přezkoušení rozvahy za rok 1936.

Vážené valné shromáždění!

Podepsaní členové revidujícího výboru, zvolení
ustavující valnou hromadou Národní banky Československé dne 31.3.1936,
povzání dne 26. ledna 1937, aby předsevzali prozkoumání roční rozvahy,
jež dle § 93. stanov přísluší jim provést, sešli se dne 31. ledna 1937
prozkoumali podrobně závěrečné účty, rozvahu a účet ze zisku a ztráty,
předložené jim bankovní radou tak, jak jsou otisknuty v předlohách daných
váženému valnému shromáždění.

Prozkoumáním zjistili, že rozvaha odpovídá všem
předpisům zákona a všem přísným pravidlům obchodního účetnictví a že
závěrečné účty, rozvaha i účet ze zisku a ztráty jsou správné.

Podepsaní porovnali zvláště položky rozvahy a účtu
ze zisku a ztráty s účetními zápisy banky a shledali, že

The efforts to maximise the National Bank of Czechoslovakia's credibility were reflected in its statements. The law on the joint-stock bank of issue required the bank to compile and publish financial statements in a precisely defined form four times a month. These "small balance

sheets" contained not only asset and liability statements, but also statements on metal coverage and obligations immediately payable relative to banknotes issued. Likewise, the bank submitted via the governor annual reports on its whole-year results and, after the general meeting, a report on the

V. FINANCIAL REPORT

VÝROČNÍ
ZPRÁVA
NÁRODNÍ BANKY
ČESKOSLOVENSKÉ
ZA ROK 1926
A ZPRÁVA
O I. ŘÁDNĚ VALNÉ HROMADĚ
KONANÉ
21. ÚNORA 1927

general meeting to the country's legislative bodies.

The annual balance sheet was compiled by the central accounts unit, which then forwarded it to the Bank Board for approval. The audit committee had a control function, auditing the balance sheet on behalf of the

shareholders. Since the National Bank of Czechoslovakia was a joint-stock company, its final accounts were approved by the general meeting, but due to the state's one-third share in the bank, it was obliged to submit them subsequently to the Supreme Accounting and Audit Office.

FINANCIAL REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT To the Bank Board of the Czech National Bank

Having its registered office at: Na Příkopě 28, 115 03 Prague 1
Identification number: 481 36 450

Opinion

We have audited the accompanying financial statements of the Czech National Bank prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as at 31 December 2016, and the income statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the assets and liabilities of the Czech National Bank as at 31 December 2016, and of its expenses and income and its profit or loss for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

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

Other Information in the Annual Report

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

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

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

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

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

Responsibilities of the Management of the Czech National Bank for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

In Prague on 23 March 2017

Audit firm:

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



Statutory auditor:

Diana Rádl Rogerová
registration no. 2045



FINANCIAL STATEMENTS

ASSETS		31 December 2016 CZK million	31 December 2015 CZK million
1.	Gold	630	616
2.	Receivables from the International Monetary Fund	89,557	60,985
3.	Receivables from abroad, including securities	2,167,721	1,556,939
3.1.	Deposits at foreign banks and financial institutions	614,180	163,100
3.2.	Securities	1,515,053	1,359,241
3.3.	Other receivables from abroad	38,488	34,598
4.	Receivables from domestic banks	0	0
5.	Fixed assets	3,449	3,609
5.1.	Tangible fixed assets	3,421	3,578
5.2.	Intangible fixed assets	28	31
6.	Other assets	6,836	5,917
6.1.	Other financial assets	4,696	4,676
6.2.	Other	2,140	1,241
TOTAL ASSETS		2,268,193	1,628,066

LIABILITIES AND EQUITY		31 December 2016 CZK million	31 December 2015 CZK million
1.	Notes and coins in circulation	556,689	510,128
2.	Liabilities to the International Monetary Fund	88,714	49,941
3.	Liabilities abroad	66,307	40,070
3.1.	Loans from foreign banks	15,351	3,823
3.2.	Other liabilities abroad	50,956	36,247
4.	Liabilities to domestic banks	1,291,306	882,528
4.1.	Loans received	541,506	193,102
4.2.	Bank monetary reserves	201,561	170,591
4.3.	Other liabilities to banks	548,239	518,835
5.	Liabilities to the state and other public institutions	182,585	112,126
6.	Provisions	294	285
7.	Share capital	1,400	1,400
8.	Funds	14,161	14,161
9.	Revaluation reserve	4,400	7,838
10.	Accumulated losses from previous periods	-549	0
11.	Net loss / profit for the period	46,469	-549
12.	Other liabilities	16,417	10,138
TOTAL LIABILITIES AND EQUITY		2,268,193	1,628,066

OFF-BALANCE SHEET		31 December 2016 CZK million	31 December 2015 CZK million
1.	Guarantees issued	157,272	157,953
2.	Issued loan commitments	40,530	40,538
3.	Receivables from spot, term and futures transactions	468,645	290,576
4.	Liabilities from spot, term and futures transactions	471,518	291,825
5.	Guarantees received	224,515	225,193
6.	Collateral received	45,034	41,900

INCOME STATEMENT		2016 CZK million	2015 CZK million
1.	Interest income and similar income	8,585	7,212
1.1.	Interest from fixed income securities	8,401	7,071
1.2.	Other	184	141
2.	Interest expense and similar expense	-4,182	-1,710
3.	Income from shares and other interests	4,873	3,335
4.	Fee and commission income	427	396
5.	Fee and commission expense	-142	-122
6.	Gains less losses from financial operations	39,298	-8,284
6.1.	Net foreign exchange gains / losses and foreign exchange spread	23,978	-16,340
6.2.	Other	15,320	8,056
7.	Other operating income	1,044	624
7.1.	Income from money issue	273	434
7.2.	Other	771	190
8.	Other operating expense	-1,444	-382
8.1.	Expenses for production of notes and coins	-486	-336
8.2.	Other	-958	-46
9.	Administration expense	-1,747	-1,640
9.1.	Personnel expenses	-1,407	-1,318
9.1.1.	Wages and salaries	-991	-930
9.1.2.	Social and health security	-328	-310
9.1.3.	Training and employee benefits	-88	-78
9.2.	Other administration expenses	-340	-322
10.	Depreciation and amortisation of fixed assets	-243	-252
11.	Reversal of provisions for receivables and guarantees, income from receivables already written off	6	501
12.	Write offs, additions and utilisation of provisions for receivables and guarantees	-6	-227
13.	Net loss / profit for the period	46,469	-549

The income and expense structure used in the following text provides information according to the purpose of the bank's expenditure. By contrast, the attached standard financial statements give an overview of income and expenses with regard to type.

Income and expenses in 2016

(in CZK millions)

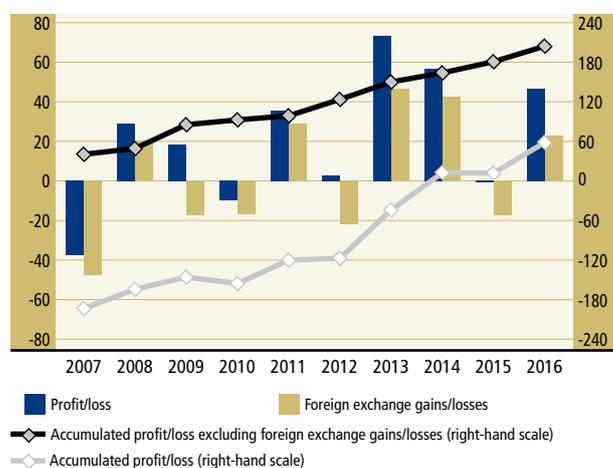
	Expenses	Income	Net	Y-o-y change
Monetary area	46,139	94,623	48,484	47,386
Monetary policy-making	613	0	-613	-196
International reserves management	33,608	58,807	25,199 ¹⁾	7,898
Valuation changes	11,018	33,882	22,864	40,344
Client operations	13	1,412	1,399	-14
Other operations	887	522	-365	-646
Currency issuance and management	486	329	-157	-272
Operations	2,061	203	-1 858	-96
Total	48,686	95,155	46,469	47,018

Note: Operations include all personnel expenses, depreciation and amortisation, purchased services, energy consumption, etc.

1) All debt securities are included in the realisable portfolio. In accordance with accounting standards, their regular revaluation to market value is therefore reflected in the revaluation reserve balance sheet item (included in equity). If the unrealised loss from bond revaluation, which totalled CZK 3,458 million in 2016, was directly reflected in the income statement, the overall balance of income and expenses from international reserves management would decrease to CZK 21,741 million.

The CNB recorded a profit of CZK 46,469 million in 2016. This profit was due mainly to international reserves management. Foreign currency assets and liabilities are subject to exchange rate risk, which the CNB manages by maintaining an appropriate currency structure of its reserves as far as it can. Exchange rate movements had a favourable impact on the bank's profit, mainly in the form of unrealised exchange rate gains, which were comparable to the income generated from foreign currency portfolios.

The CNB's performance 2007–2016 (in CZK billions)



The CNB maintained easy monetary conditions in 2016. The persisting very low level of the central bank's monetary policy interest rates continued to ensure low sterilisation costs despite a marked year-on-year increase in the CNB's sterilisation liabilities. In the environment of low interest rates, the CNB continued to use the exchange rate as an additional monetary policy instrument. It confirmed its previous commitment to intervene in the foreign exchange market if needed to weaken the koruna against the euro so that the exchange rate of the koruna is kept close to CZK 27 to the euro. In line with this commitment, the CNB intervened automatically in the foreign exchange market without any time or volume limits.

The intervention purchases took place with varying intensity throughout the calendar year with the exception of March, when the central bank did not intervene in the market. The CNB made intervention purchases totalling EUR 16.9 billion (i.e. around CZK 455 billion), up by EUR 7.9 billion on a year earlier. It allocated the purchased foreign currencies to its reserves and then invested them on financial markets in accordance with the adopted principles and subject to investment opportunities.

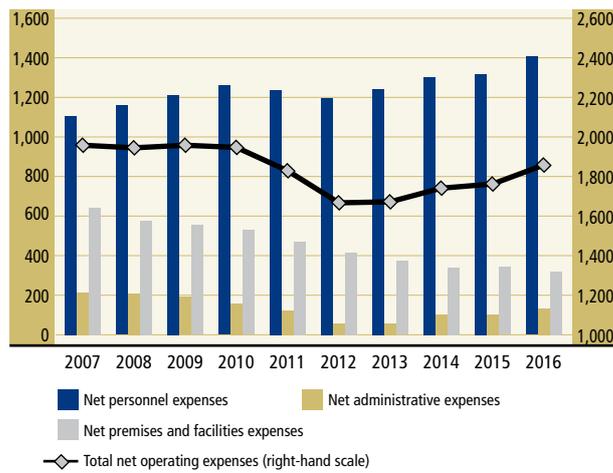
The interventions on the foreign exchange market and the conversion of the inflow of EU funds fostered an increase in the central bank's international reserves, which rose by 37% year on year. The income on international reserves management was due mainly to the equity portfolios (net income of CZK 17,161 million), which benefited above all from growing stock markets and from dividends. All the equity portfolios generated a profit. The bond portfolios, in which the largest proportion of the international reserves is allocated, contributed net income of CZK 10,501 million (or CZK 7,043 million net of valuation changes from revaluation of bonds recorded on the balance sheet). The income on the realisable bonds portfolio was due most of all to the interest rate component, which was practically the same as in the previous year and continued to reflect the low level of market interest rates, followed by the capital component, which comprises total income from bond sales, which was also at the previous year's level.

The bulk of the income in the area of client operations was due to conversions of funds on client accounts, in which, at the client's request, a foreign currency is converted into Czech koruna or the domestic currency is converted into a selected foreign currency. The largest conversions are executed on the accounts of the Ministry of Finance on drawdown of EU funds or conversely on payment of the Czech Republic's contributions to the budget of the European Commission.

2016 saw the completion of two arbitration proceedings before an international court of arbitration in which the CNB was sued for financial compensation under the Agreement and Letter of Indemnity signed between the CNB and ČSOB, a.s., following the sale of Investiční a Poštovní banka, a.s. The court of arbitration fully dismissed one case and partially dismissed the other. On the basis of the final arbitration award, the CNB paid financial compensation totalling CZK 391 million to ČSOB, a. s.

In the area of currency issuance, the CNB continued to replenish its stocks of Czech banknotes and base metal coins. The operational area was affected mainly by an increase in wages resulting from collective bargaining, current labour market developments and an increase in the workforce due to the further expansion of the central bank's financial market supervisory competences. As regards the bank's operations, an increase in the membership fees paid to the European

Net operating expenses 2007–2016 (in CZK millions)



Supervisory Authorities is also worthy of mention.

The CNB's 2016 profit of CZK 46,469 million was partly used to cover its 2015 accounting loss and the rest was allocated to the its reserve fund. The CNB's capital of CZK 65,881 million represented 2.9% of the balance sheet total as of the end of the year.

More comprehensive information about the CNB's performance in 2016 is available on the CNB website (*About the CNB > Performance > Financial Reports*).



ZPRÁVY NÁRODNÍ BANKY ČESKOSLOVENSKÉ

USTAVENÍ NÁRODNÍ BANKY ČESKOSLOVENSKÉ.

Funkce cedulové banky zastával v ČSR. po vzniku státu Bankovní úřad ministerstva financí, který byl zřízen podle nařízení ze dne 6. března 1919, čís. 119 Sb. z. a n., zákona ze dne 10. dubna 1919, čís. 187 Sb. z. a n. a nařízení ze dne 12. května 1919, čís. 246 Sb. z. a n.

Oběh státovek podle těchto právních předpisů mohl být rozmnožován jen na podkladě plně soukromoprávní bankovní úhrady. Bankovní úřad nesměl poskytovat zápůjček státu.

Dosti záhy pomýšlelo se na zřízení cedulové banky. O zřízení akciové banky cedulové byl vydán zákon ze dne 14. dubna 1920, čís. 347 Sb. z. a n., který byl později novelou ze dne 23. dubna 1925, čís. 102 Sb. z. a n. Ustavující valná hromada Národní banky Československé konala se dne 21. března 1926, převzavši svou působnost dnem 1. dubna 1926, převzavši činnost Bankovního úřadu ministerstva financí, který tímž dnem přestal působiti.

S aktivováním Národní banky Československé nebyla spojena žádná změna měnového systému, zejména ne změna měnové jednotky; i nadále zůstává měnovou jednotkou československá koruna. Velmi důležitým jest však, že aktivováním cedulové banky nabylo působnosti ustanovení

ni rozumí se relace Kč 100 = \$ 2.90 — 3.03. Od aktivování cedulové banky jest československá měna podle zákona stabilisována i když není v zákoně přesně definována poměrem ke zlatu neb k některé měně jiné.

Národní banka Československá jest akciovou bankou, která obdržela na 15 roků privilegium vydávati bankovky. Akciový kapitál činí \$ 12 mil. a může býti zvýšen na \$ 15,000,000. Nominále akcií značí na \$ 100. Stát převzal jednu třetinu kapitálu.

Správu banky vede Bankovní rada, v jejíž čele jest guvernér, jmenovaný presidentem republiky na 5 roků.

Bankovní rada skládá se dále ze 6 členů volených valnou hromadou a ze 3 členů jmenovaných presidentem republiky na návrh vlády.

Ze zvolených členů jmenuje president republiky náměstka guvernéra. Bankovní rada může kooptovati desátého člena, který na rozdíl od ostatních členů nemusí býti československým příslušníkem. Valná hromada volí na dobu 5 let pětičlenný revidující výbor, jehož předsedu jmenuje guvernér banky.

Stát vykonává vrchní dozor vládním komisařem, který jest vzat z úředního

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A monthly entitled *Zprávy Národní banky Československé* (*Bulletin of the National Bank of Czechoslovakia*) was the most important source of information about the National Bank of Czechoslovakia's operations for both the Czech and foreign public.

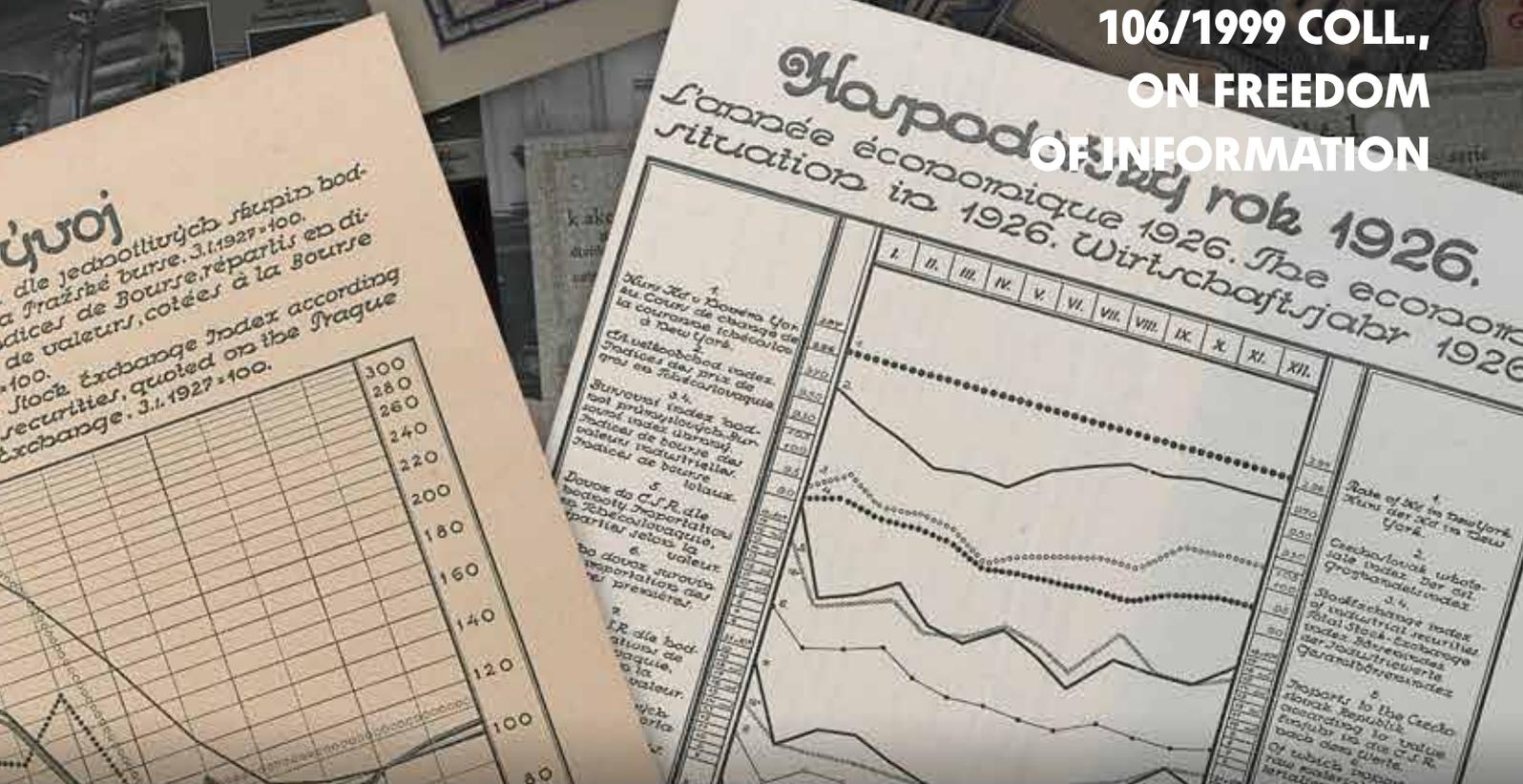
Its creation in 1926 is associated with the leading Czech economist Antonín Basch, who also played a central role in the establishment of the bank of issue's study department.

In addition to statistical data on the bank and the Czechoslovak economy, *Zprávy*

VI.

PROVISION OF INFORMATION

UNDER ACT NO.
106/1999 COLL.,
ON FREEDOM
OF INFORMATION



Národní banky Československé, which was published in Czech, English and initially also in French, contained articles written by experts evaluating economic developments in Czechoslovakia and abroad. The monthly also gradually grew into a major platform for the publication of

monetary and financial legislation. Publication was interrupted in 1941 when Nazi Germany occupied the Czech lands. It was not renewed until 1947 and was discontinued again just one year later as the Communist regime strived to maximise the secrecy of economic information.

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

The CNB provides information pursuant to Act No. 106/1999 Coll., on Freedom of Information, as amended (hereinafter the "Act") by way of disclosure on the internet, primarily at www.cnb.cz, or to applicants on the basis of applications.

A) INFORMATION PROVIDED IN 2016 ON THE BASIS OF APPLICATIONS:

1. Number of applications for information under the Act: 51
2. Number of decisions refusing an application: 13
3. Number of appeals submitted against decisions: 2
4. Court judgements relating to the CNB in the area of provision of information:
 - Judgement of the Municipal Court in Prague of 31 March 2016, ref. no. 6A 84/2012-43-53 – the decision of the CNB Bank Board and the decision of the CNB were revoked and the matter was returned to the CNB for further proceedings; as part of the further proceedings, the CNB provided the requested information and issued a decision partly refusing the application only to the extent of the data which was anonymised in the documents provided.
5. Number of exclusive licences granted, including justification of the need to grant exclusive licences: 0
6. Number of complaints submitted under Article 16a of the Act, reasons for their submission and a brief description of the manner in which they were dealt with: 2
 - A complaint about the CNB's action in dealing with the complainant's application for information, which concerned information unrelated to the CNB's area of competence and the application was therefore deferred pursuant to Article 14(5)(c) of the Act. The Bank Board reviewed the action in dealing with the application, found no shortcomings and confirmed the action with a decision about the complaint pursuant to Article 16a(6)(a) of the Act.
 - A complaint about the CNB's action in dealing with the complainant's application for information to which the reasons for refusal thereof partly pertained under Article 11(4) (a) and (b) of the Act. The application mainly contained queries regarding the obliged entity's opinions and was directed at the creation of new information. The complaint contested the obliged entity's action in dealing with the application on the grounds that in its reply the obliged entity had not provided the complainant with all the requested information it should have provided by law. The complaint was dealt with under the procedure laid down in Article 16a(5) of the Act, and a decision partly refusing the application was issued.

7. Other information relating to application of the Act:
The number of applications received was almost the same as in the previous year. The increased public interest in information relating to the CNB's areas of competence recorded in recent years thus still persists. The applications pertain to a broad range of information which cannot be narrowed down into typical groups. The queries from the public concerned statistics, monetary policy, the balance of payments and the circulation of banknotes and coins. The applications also contained questions about international reserves, enforcement proceedings and the remuneration of Bank Board members..

In 2016 the CNB issued and published a schedule of fees for providing information, which it has applied since 1 November 2016.

B) INFORMATION PROVIDED BY WAY OF PUBLIC DISCLOSURE:

The CNB also provides information in a manner allowing remote access and publishes information pursuant to Articles 4b and 5 of the Act. The information subject to mandatory disclosure is available on the CNB website and on notice boards at CNB headquarters and branches, in locations accessible to the public. Other information on the central bank's activities and responsibilities is also published on the state administration web portal.

ABBREVIATIONS

BIS	Bank for International Settlements
COREP	Common Reporting Framework
EBA	European Banking Authority
ECB	European Central Bank
ECOFIN Council	EU Council in the composition of the ministers of economy and finance
EIOPA	European Insurance and Occupational Pensions Authority
ERM II	Exchange Rate Mechanism II
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro
FINREP	Financial Reporting Framework
GDP	gross domestic product
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
LHS	left-hand scale
OECD	Organisation for Economic Cooperation and Development
PRIIPs	a regulation on key information documents for packaged retail investment products
RHS	right-hand scale
SDR	special drawing rights
USD	US dollar

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