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## **Výroční zpráva České národní banky za rok 2021**

Česká národní banka  
2022

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# Annual Report — 2021



Czech National Bank — Annual Report — 2021

**CNB** CZECH  
NATIONAL  
BANK

[www.cnb.cz](http://www.cnb.cz)



# The mandate of the CNB

- to maintain price stability,
  - to maintain financial stability and see to the sound operation of the financial system in the Czech Republic,
  - to issue banknotes and coins, manage the circulation of currency and administer clearing between banks,
  - to supervise the entities operating on the financial market.
- 
- Through monetary policy we seek to preserve price stability, i.e. low and stable inflation. Through macroprudential policy we foster financial stability and resilience of the financial system, which are necessary conditions for the maintenance of price stability. Through the joint action of monetary policy and macroprudential policy, we contribute to maintaining confidence in the value of the Czech koruna and safeguarding the stability of the macroeconomic environment.
  - By supervising the financial market and creating prudential rules and rules of conduct towards clients we protect the clients of persons and institutions carrying on business on the financial market.
  - By exercising powers in the area of resolution of banks, credit unions and some investment firms, we create conditions for the smoothest possible resolution without recourse to public funds.
  - By managing the interbank payment system and issuing banknotes and coins we ensure smooth payments and cash circulation.
  - As the bank of the state, we provide banking services to the state and the public sector.
  - In line with our primary objective, we manage international reserves with professional care.
  - We are a part of the European System of Central Banks and contribute to the fulfilment of its objectives and tasks.

## WHAT WE BUILD ON

### INDEPENDENCE

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

### OPENNESS AND CREDIBILITY

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

### PROFICIENCY

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



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## 2021 at a glance

- As in 2020, the economic situation was significantly affected by the coronavirus pandemic. At the same time, the Czech economy was hit by problems in global value chains and in the autumn also by a surge in electricity and natural gas prices on international exchanges.
- The increasing prices of production inputs, renewed growth in labour market tightness, strong and rising demand, and supply-side problems caused domestic inflation to rise and deviate significantly from the 2% inflation target during the second half of the year.
- In response to the rising inflation pressures, the Bank Board raised interest rates sharply. Over the year as a whole, the Bank Board increased the key interest rate by 3.5 percentage points to 3.75% in a total of five steps.
- At the start of the year, the Monetary Policy Report became the Czech National Bank's flagship monetary policy publication. This report focuses more on key economic issues and the Bank Board's monetary policy decision-making.
- The domestic financial sector coped well with the pandemic. The banking sector maintained a high level of resilience to adverse shocks and was able to create buffers for worse times. The Bank Board therefore decided to gradually raise the countercyclical capital buffer rate to 2% with effect from 1 January 2023.
- In response to a spiral between rising debt financing of property purchases and growth in property prices, which is causing systemic risks to increase, the Bank Board made use of its new legal powers and capped the loan-to-value (LTV) ratio at 80%, the debt-to-income (DTI) ratio at 8.5 and the debt service-to-income (DSTI) ratio at 45% with effect from 1 April 2022.
- The CNB continuously monitored the effects of the ongoing coronavirus pandemic on the individual sectors of the domestic financial market and focused its supervisory activities on the hardest-hit areas.
- The CNB set a binding intermediate objective for banks for meeting the minimum requirement for own funds and eligible liabilities (MREL). All banks met the objective using own funds or a combination of own funds and eligible liabilities.
- The Bank Board approved a new CNB Code of Ethics, which took effect on 1 January 2022.

# Governor's foreword



Dear Readers,

While 2020, which started with the outbreak of the coronavirus crisis, was one of the toughest years for society and the economy in post-war history, 2021 was much more optimistic. It brought a rebound, a solid economic recovery and a general decline in uncertainty. The second half of the year differed significantly from the first in several respects. From the epidemic point of view, vaccination led to a qualitative turning point. Vaccines became more and more available and used in the spring months and, together with immunity acquired through infection, helped bring the pandemic gradually under control. Society “learned to live with the virus”. This was reflected in the lockdowns getting less extensive with each subsequent wave of infection, thus reducing the immediate economic costs of the pandemic.

It became increasingly clear during 2021 how the coronavirus crisis differed from the usual business cycle-linked crises. Unlike in the latter, the bottleneck consisted not in a lack of demand, which remained strong, but in a shortage of supply. The gap between the two sides of the economy continued to widen during the year.

The first of the three reasons for the strong demand was that our economy was caught overheated by the coronavirus crisis and then cooled only partially. The labour market continued to show large imbalances, manifesting as acute shortages of skilled and unskilled labour and sustained strong upward pressure on wages. The second reason was rapid accumulation of forced savings from the income that people physically couldn't spend when many areas of the economy, especially services, were shut down. The third reason for the strong demand was a strong budgetary stimulus, both in the form of support programmes for the sectors and occupations affected and due to the abolition of the super-gross wage. It is no surprise, then, that household consumption became the main driver of growth, reaching its pre-crisis level already in 2021. However, due to slower growth in other expenditure items, the total output of the economy will not return to its pre-crisis level until 2022.

The supply side, by contrast, was exposed to repeated negative shocks in the form of major logistical disruptions to global value chains, bottlenecks in international transport, and considerable uncertainties and delays in the supplies of commodities and semi-finished and finished products. On many occasions, we heard experts in the relevant fields say they had never seen such a disintegration of production and trade links built over the course of decades. The automotive industry, which, along with related sectors, plays an important role in our economy, was perhaps the worst affected sector, as a result of a persistent lack of chips. It is worth noting that in 2020, due to extensive shutdowns, services had been the main drag on economic output, while industry had reduced the sharp rate of decline. In 2021, by contrast, services supported the economic recovery but industry slowed it. This was reflected in unusually high growth in unfinished production, resulting in weaker export performance of the Czech economy.

The excess demand was one of the causes of the significant rise in inflation pressures last year. However, global prices of energy and non-energy commodities, metals, intermediate products, manufacturing components and materials of all kinds began to rise rapidly in parallel with the demand-pull inflation. The strong cost-push inflation entered our economy via import prices and foreign producer prices and led to a blend of cost and demand pressures, which became increasingly broad-based.

During the second half of 2021, inflation accelerated at a rate unprecedented in the history of the independent Czech Republic. Anyone who saw the level of our inflation barometer at the beginning of the year (inflation stood at 2.2% in January) and then fell asleep and woke up again a year later must have thought that the barometer was broken. Czech inflation climbed to 6.6% in December and even reached 9.9% in January 2022, 7 percentage points above the upper boundary of our tolerance band around the inflation target. This crucial indicator for the CNB shows how much the end of 2021 differed from the start.

If the rise in inflation in 2021 was unprecedented, the same is true of our interest rate hikes. In order to begin the process of normalising monetary policy and returning interest rates to their neutral level, we raised our key two-week repo rate by the standard step of 0.25 percentage point in both June and August. As the inflation pressures began to increase massively and become broad-based in the second half of the year, we upped the pace of tightening significantly, taking steps that were unprecedented in the CNB's history. Between September and December, we raised interest rates in three steps by a total of three percentage points, and in November alone by as much as 1.25 percentage points. By the end of the year, monetary policy had thus started to have a restrictive effect on our economy, as key rates had risen above the neutral level of 3%.

Of course, we were aware that by raising interest rates we would not eliminate the causes of the mostly imported cost-push inflation. However, we wanted to dampen the high demand and, above all, prevent inflation expectations becoming unanchored. We wanted to prevent potentially higher inflation expectations from becoming embedded in the financial planning of firms and households and turning into persistently high inflation, with all its well-known detrimental consequences for the economy. Our interest rate hikes led to a widening of the interest rate differential vis-à-vis the main foreign currencies. This caused the koruna to strengthen and hence the imported inflation pressures to diminish. In the global context, the CNB was very forceful in tightening monetary conditions, reaching the highest interest rates among the advanced economies. The current interest rate level, which we last saw in 2008, also shows just how much turbulence we experienced in a single year.

After 23 years of “loyal service” since the adoption of inflation targeting in 1998, the *Inflation Report* “retired” at the end of 2020, to be replaced by a more modern *Monetary Policy Report* from 2021 onwards. The new report describes the most important features of the economic situation in a more concise and vivid way and gives readers more insight into our monetary policy considerations.

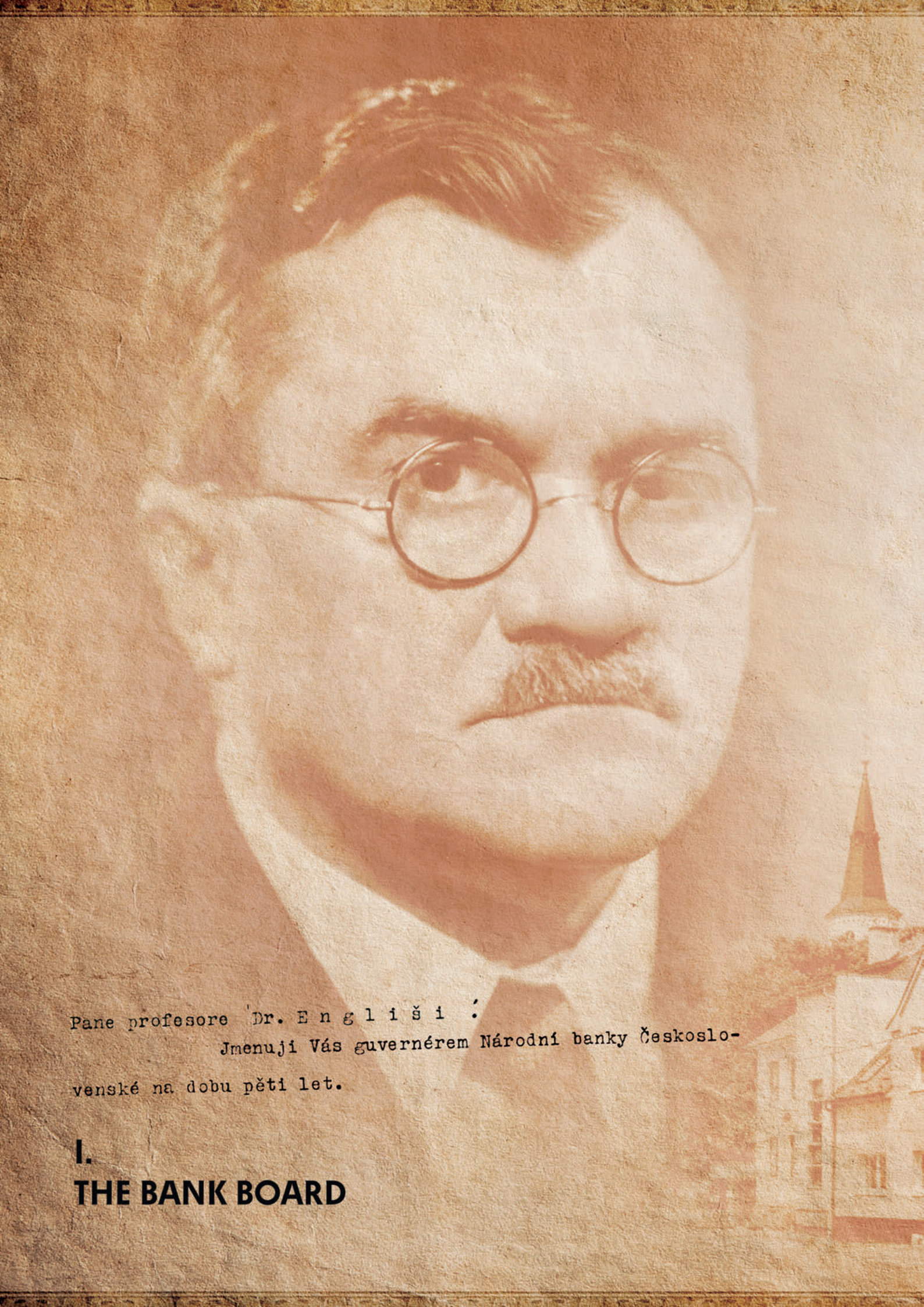
Although there were concerns after the outbreak of the pandemic that the economic downturn would aggravate the health of domestic banks, they proved unfounded. Banks maintained robust capitalisation and a high degree of resilience to adverse shocks throughout the coronavirus crisis. It was therefore possible to start rebuilding the countercyclical capital buffer for worse times. After having preventively reduced the buffer rate to 0.5% in 2020, we decided to gradually increase it to 2% in 2021 with effect from the start of 2023. We proceeded similarly with the setting of macroprudential ratios. After having eased them following the onset of the pandemic, we decided in November 2021 to make use of our new legal powers and, with effect from 1 April 2022, set binding mortgage lending limits applying to all mortgage providers on the Czech market. It was therefore no longer a case of the CNB “merely” issuing recommendations for banks, as we had done earlier.

To sum up, in 2021 our economy embarked on the path to a sustainable recovery and back to its pre-crisis level. Unfortunately, this happened amid a sharp surge in inflation pressures, which will burden the economy with many risks and uncertainties for the foreseeable future. However, we believe that our forceful tightening of monetary conditions will prevent inflation from persisting in the long term and restore price stability. It is in this that we see the fulfilment of our primary statutory duty.



Jiří Rusnok, Governor





Pane profesore 'Dr. E n g l i š i ' :  
Jmenuji Vás guvernérem Národní banky Českoslo-  
venské na dobu pěti let.

**I.**  
**THE BANK BOARD**



— KAREL ENGLIŠ

# BIOGRAPHY

In 2021 we marked the 60th anniversary of the death of the prominent Czech economist, politician and teacher Karel Engliš. He was born on 18 August 1880 in Hrabyně in Silesia. After completing his law studies at Czech Charles-Ferdinand University in Prague he worked at the Provincial Statistical Office in Prague and the Ministry of Trade in Vienna. In 1917 he became a professor of economics, and in 1919 he was appointed the first rector of the newly founded Masaryk University in Brno. From 1913 onwards he worked as a deputy in the Moravian Provincial Assembly and later the Czechoslovak National Assembly.

In 1920–1921, 1925–1928 and 1929–1930 he held the position of minister of finance in a total of six Czechoslovak governments. In 1934–1939 he served as the second governor of the National Bank of Czechoslovakia. He was briefly rector of Charles University after World War II but was forced to leave the post after the Communist coup. He spent the rest of his life in his home town of Hrabyně, where he continued his research work despite being persecuted by the Communist regime. He died on 13 June 1961.





## I. THE BANK BOARD

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

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

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

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

There was no change in the composition of the Bank Board in 2021.



The Bank Board as of 31 December 2021

Back: Oldřich Dědek, Aleš Michl, Tomáš Nidetzký, Vojtěch Benda, Tomáš Holub  
Front: Marek Mora, Jiří Rusnok





JUDR. KAREL ENGLIŠ:

Dámy a pánové! Všechny zákonné podmínky pro zřízení  
Národní banky Československé jsou splněny.

II.  
THE CNB IN 2021



— KAREL ENGLIŠ

# ECONOMIC SCHOOL OF THOUGHT

Karel Engliš's economic thinking centred on the teleological approach, which was based on the knowledge that people and firms in the economy always behave with some sort of purpose and aim to improve their position. Engliš rejected simple causality as the main principle of economic thinking. His primary inspirations for his own thoughts were marginal utility theory and the Vienna School of Economics.

In the field of monetary policy, Karel Engliš was of the opinion that the currency should be kept stable so that excessive volatility did not cause anarchy and speculation. In accordance with the teleological theory, he linked the purchasing power of money with the generation of national income rather than gold coverage. In his view, production was what mattered, while the currency was merely an instrument. In the fiscal policy area, as post-war minister of finance he promoted consolidation of national finances and a balanced budget. In 1927, he pushed through a tax reform, consisting mainly in simplifying the system and unifying direct taxes, which were in a non-uniform state in Czechoslovakia as a legacy of the Austrian-Hungarian Monarchy.

**U**STAVUJÍCÍ VALNÁ HROMADA NÁRODNÍ BANKY ČESKOSLOVENSKÉ konala se dne 21. března 1926. Valné hromady této, jež měla povznášející ráz národní manifestace, byli přítomni: diplomatický sbor pražský, členové nynější vlády a někteří členové vlády dřívější, kancléř presidenta republiky, president nejvyššího účetního kontrolního úřadu, president nejvyššího soudu, předseda poslanecké sněmovny, primátor hlavního města Prahy, paní Karla Rašínová, bývalí předsedové bankovního výboru při ministerstvu financí, nynější členové bankovního výboru při ministerstvu financí, funkcionáři ministerstva financí, obchodní správa Bankovního úřadu ministerstva financí a 2.498 akcionářů.

Valnou hromadu zahájil o 10. hod. 15 min. dopol. programovým proslovem ministr financí, pan

**JUDR. KAREL ENGLIŠ:**

Dámy a pánové! Všechny zákonné podmínky pro zřízení Národní banky Československé jsou splněny. Byl plně upsán akciový kapitál, úhrada zákonná jest zajištěna. Valná hromada byla svolána podle zákonných předpisů. Pan president republiky jmenoval guvernérem Národní banky Československé Dra Viléma Pospíšila, jehož Vám zde představuji. (Potlesk.) Pokládám za svou povinnost, abych poděkoval Bankovnímu úřadu a bankovnímu výboru za jeho práci úspěšnou a neúpornou v nejtěžších dobách po převratu až dodnes. Pane guvernére, nežli Vám odevzdám Váš úřad, dovolte mně několik slov. Chci říci nejen Vám a pánům akcionářům, ale všem občanům. Nejdražší klenot národní, naši korunu, není ze stříbra, nýbrž z práce. Jejími kameny jsou miniaturní



## II. THE CNB IN 2021

### II.1 MONETARY POLICY AND ECONOMIC DEVELOPMENTS

The primary objective of monetary policy is to maintain price stability. Since January 1998, i.e. for more than 20 years, the CNB has been applying an inflation targeting regime in which it endeavours to keep inflation close to a declared target in terms of year-on-year growth in the consumer price index. Since 2010, the inflation target has been set at 2% with a tolerance band of  $\pm 1$  percentage point. This target is in line with the practice in advanced economies.

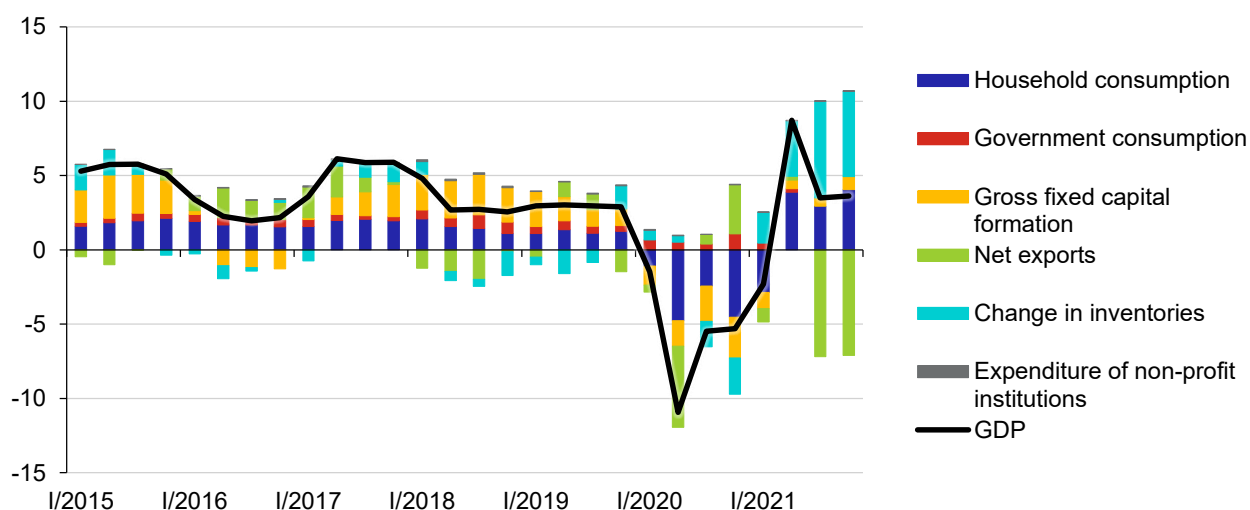
As in the previous year, the economic situation was significantly affected by the coronavirus pandemic in 2021. Anti-epidemic measures severely dampened economic activity in the early months of the year. Their spring easing led to an economic recovery, which was then slowed considerably less by the autumn wave of the pandemic and related measures. Household consumption became the driving force of economic growth. As life returned to normal, households began to make up for having to postpone part of their consumption during the pandemic. They financed their spending through rapid wage growth on an again overheating labour market and from the savings they had accumulated during the lockdowns. Households' consumer appetite was also supported by generous fiscal policy, specifically by the various forms of state support provided during the pandemic, the abolition of the super-gross wage, and increases in pensions in excess of the statutory framework. Household consumption thus returned to the pre-pandemic level in the course of 2021.



However, problems in global value chains and related shortages of components and materials weighed significantly on the Czech economy throughout the year. This limited production and led to plant shutdowns, especially in the automotive industry, and significantly hampered the export performance of the Czech economy. Problems with completing and dispatching export goods caused unfinished products to accumulate, predominantly in industry. Additions to inventories thus rose well above their long-term level during the year and exports simultaneously declined. Despite these persisting problems, domestic economic activity started to recover gradually, growing by 3.3% in the year as a whole. The Czech economy did not return to the pre-pandemic level during 2021, but even so it started to show clear signs of overheating.

#### Annual GDP growth and its structure

(in %)



At the same time, 2021 was characterised by significantly rising costs for Czech firms. This was increasingly due to domestic factors, above all renewed growth in tightness on the labour market, which cooled only partially

during the pandemic. The unemployment rate fell gradually again during the year, and further growth in labour demand came up against labour shortages. This led to a pick-up in nominal wage growth in mid-2021. In addition, Czech firms faced strong growth in foreign costs, as the international logistics problems and related shortages of components and materials were reflected in a steep rise in industrial producer prices in the euro area. Moreover, their inflationary effect on the Czech economy was exacerbated by a surge in electricity and natural gas prices on international exchanges in the autumn.

The increasing prices of production inputs, strong and rising demand, and supply-side problems led to an upswing in domestic inflation, which accelerated and deviated significantly from the 2% inflation target during the second half of 2021. Consumer prices recorded high and accelerating growth across the board, driven predominantly by core inflation. The surge in consumer demand created an environment in which retailers and service providers incorporated the unprecedentedly strong increase in costs into their prices and made up for their loss of income during the lockdowns.

Growth in prices of construction work and materials and a rapid rise in prices of new property led to a significant increase in the cost of owner-occupied housing, which is captured as imputed rent and has a relatively high weight in the domestic consumer price index. By contrast, the dramatic rise in electricity and gas prices on international exchanges in the autumn was not yet fully reflected in the November and December inflation figures due to a temporary waiver of VAT on these items. Nonetheless, inflation surpassed the long-unseen level of 6% at the end of the year. The year-on-year increment in consumer prices over the year as a whole was 3.8% on average, the highest figure in over a decade.



### Inflation by comparison with the inflation target

(headline inflation in %)



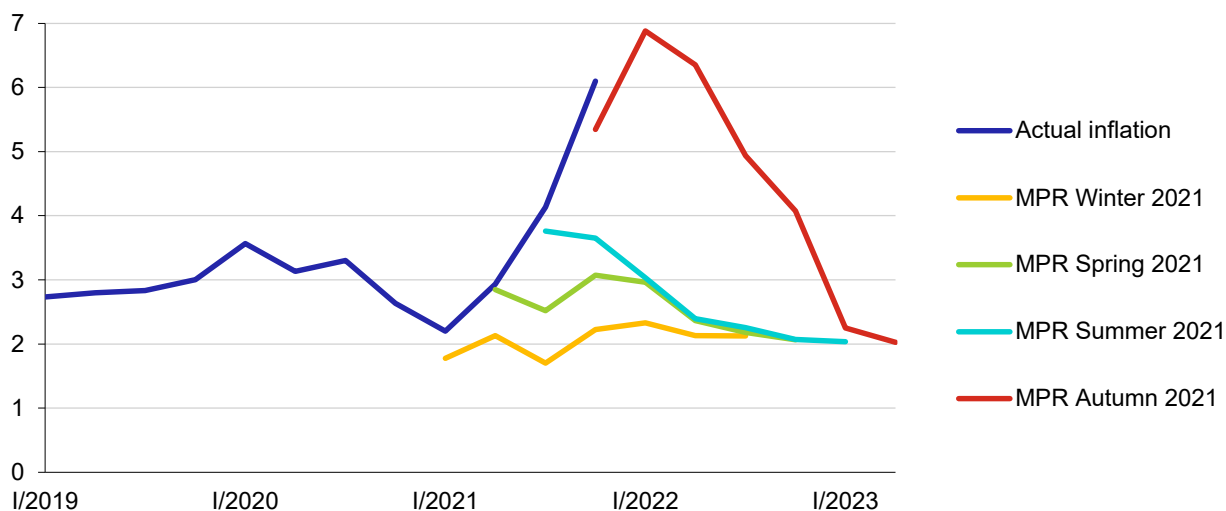
In 2021, the CNB assessed the gradually changing signals about the nature of the inflation factors and shocks in an environment of increased uncertainty. The forecast uncertainties and risks identified included:

- the timing and impact of the lifting of anti-pandemic measures and the related recovery in economic activity;
- the duration of the disruptions to global value chains;
- growth in inflation expectations;
- increasing profit margins of producers and sellers of goods and services; and
- the exchange rate of the koruna.

These risks gradually materialised in the inflationary direction. In the final quarter of the year, they were joined by an exceptionally strong rise in energy prices. This combination of factors was reflected in both stronger-than-expected growth in costs and an overall excess of demand over supply in the Czech economy. This resulted in significant upward revisions of the headline inflation forecasts throughout the year.

### Headline inflation forecasts

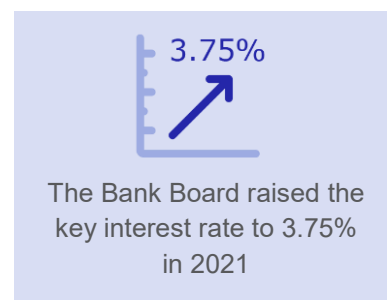
(in %)



In response to the rising inflation pressures, the CNB started to increase interest rates in June 2021. It was one of the first central banks to identify the inflationary effects of the coronavirus pandemic stemming from supply-side constraints and demand pressures. As early as the end of 2020, the CNB signalled the possibility of interest rate increases from mid-2021 onwards and hence an end to the period of exceptionally accommodative monetary policy.

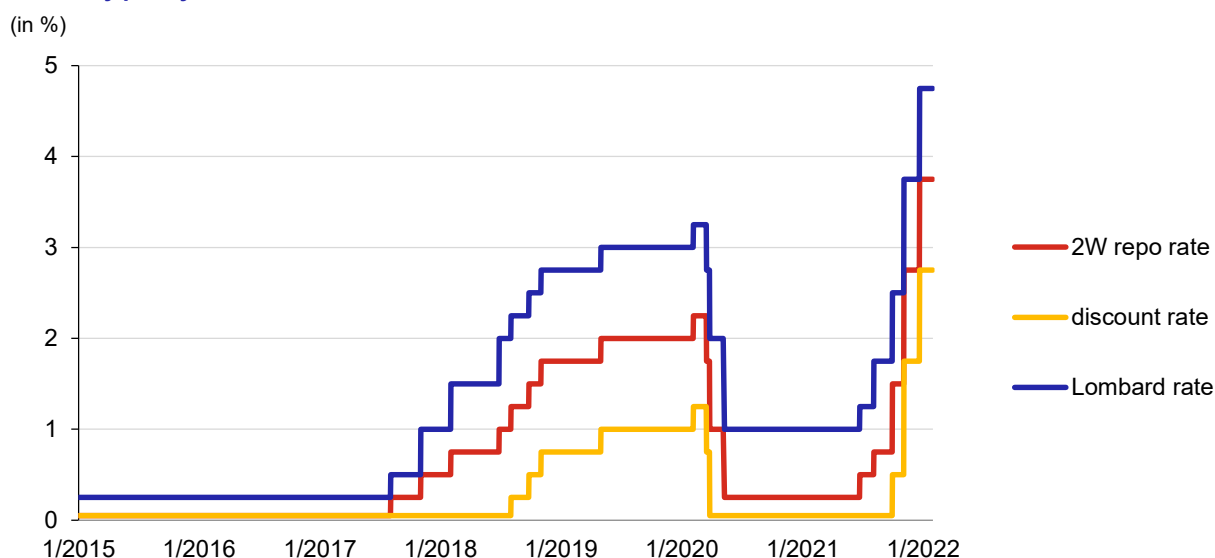


During 2021, however, sharply increasing and long-unseen inflation pressures confronted the CNB with a need to tighten monetary policy faster and more forcefully than it had previously expected. It had to limit the pass-through of the exceptionally strong inflation pressures from the foreign and domestic economies to prices over the longer term, ensure the return of inflation close to the 2% inflation target over the monetary policy horizon, and support the anchoring of inflation expectations to the target. At its final three meetings in 2021, held between September and December, the Bank Board therefore sharply increased the key interest rate (the two-week repo rate) by a total of 3 percentage points. Over the year as a whole, the CNB thus increased the rate by 3.5 percentage points to 3.75% in a total of five steps. The CNB continued to raise interest rates in early 2022. At the turn of the year, the koruna exchange rate responded to the rapid widening of the interest differential vis-à-vis the euro area by appreciating significantly. Under its price stability mandate, the CNB will continue to analyse the increased inflation pressures and the short- and long-term economic impacts of the war in Ukraine on the Czech and global economies in 2022.



In its monetary policy research, the CNB focused on topical issues in 2021. These included the development and refinement of near-term forecasting methods, the nature of the coronavirus crisis and its impact on the economy, and the transmission of monetary and fiscal policy. The research results were not only published in the CNB's research paper series, but also reflected in boxes in the Monetary Policy Reports. Section II.8 *Economic and financial research* of this Annual Report discusses the CNB's research work in more detail.

### Monetary policy interest rates



In 2021, the [Monetary Policy Report](#) became the CNB's flagship monetary policy publication. It replaced the Inflation Report, which had been published since 1998. The new report dispenses with a detailed factual account of past economic and monetary developments and focuses on key economic issues that have a dominant influence on the Czech economy, inflation and hence monetary policy going forward.

In 2021, the CNB prepared the annual [Analyses of the Czech Republic's Current Economic Alignment with the Euro Area](#). The document focused in detail on some aspects of the impact of the coronavirus crisis on European economies and EU fiscal policy. The coronavirus crisis also affected the traditionally monitored indicators of the Czech Republic's economic preparedness to adopt the euro, but their overall message remained similar to that in previous years. The CNB thus still regards the unfinished process of economic convergence to the euro area as one of the main weaknesses in the Czech Republic's preparedness to adopt the euro. The lower structural similarity of the Czech economy with the euro area may also pose a risk. The need to stabilise the pandemic-hit economy using fiscal policy tools has further deepened the problem of Czech

public finance sustainability. In addition, all the euro area countries have recorded a significant deterioration in their fiscal position due to the pandemic.

## II.2 FINANCIAL STABILITY

Maintaining financial stability and seeing to the sound operation of the financial system in the Czech Republic are among the central bank's main objectives. The CNB identifies, monitors and assesses risks jeopardising the stability of the financial system. By means of its power to set the relevant macroprudential tools, it prevents or mitigates these risks. In doing so, it creates [macroprudential policy](#) and contributes to the resilience of the financial system and the maintenance of financial stability.

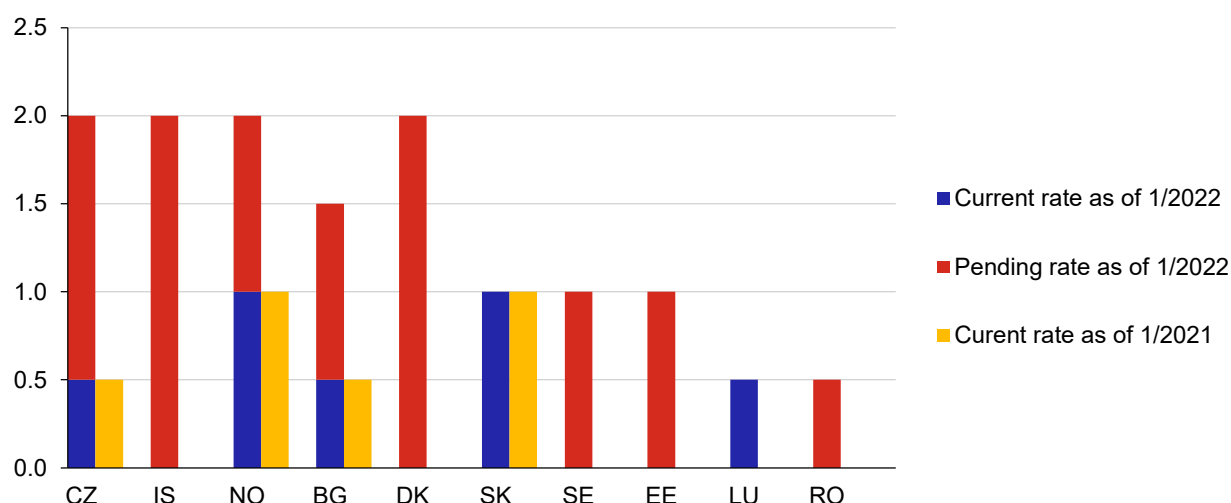
The CNB informs the public about financial stability developments mainly in its [Financial Stability Report](#), which is the underlying document for the spring Bank Board meeting on financial stability issues. It is usually published in June. CNB experts prepare an update to it for a similar autumn meeting. The update is published in December in the publication [Risks to financial stability and their indicators](#). As of 2022, both key documents will bear the title of Financial Stability Report (spring 2022, autumn 2022).

Last year, both documents found that the domestic financial sector had coped well with the pandemic and maintained a high level of resilience to adverse shocks. [Stress tests](#) demonstrated the ability of the supervised financial institutions and individual sectors to withstand potential adverse economic developments. The Bank Board therefore concluded that it was possible to start creating a [countercyclical capital buffer](#) for worse times in the banking sector again. Before the pandemic, banks had been required to create this buffer at a rate of 1.75% of risk-weighted domestic assets. After the pandemic broke out in spring 2020, the Bank Board lowered the rate to 0.5% as a preventive measure in case banks suffered significant credit losses. However, this did not happen, and, in view of the favourable situation, the Bank Board decided in 2021 to gradually raise the buffer rate to 2% with effect from the start of 2023. Several other national macroprudential authorities in the EU did likewise.



### Countercyclical capital buffer rates in European countries

(in % of total risk exposure)



In accordance with the CNB's [Macroprudential Policy Strategy](#), the Bank Board aims to effectively coordinate macroprudential and monetary policies when deciding on the countercyclical capital buffer rate. This approach is based on macroprudential policy normalisation naturally being started slightly earlier than monetary policy normalisation when a contraction phase is abating. This is mainly because adjustments to macroprudential

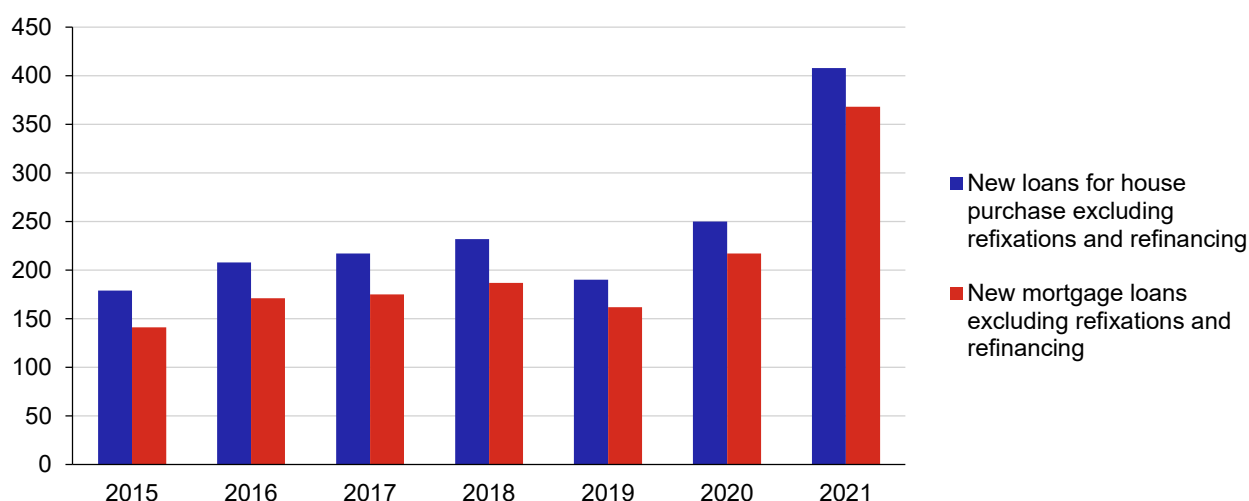


instruments generally take effect with a delay, while changes to monetary policy do so immediately. Thanks to this approach, the CNB's macroprudential and monetary policies remain well aligned not only in terms of instrument settings, but also as regards communication of their likely course.

Since 2014, the CNB has focused intensively on risks associated with the relationship between property prices and house purchase loans. It has gradually introduced recommended [limits](#) for mortgage lenders on the loan-to-value (LTV), debt-to-income (DTI) and debt service-to-income (DSTI) ratios. In line with its previous communications, the Bank Board's response to the onset of the pandemic was countercyclical in this area – in 2020 the LTV cap was raised to 90% and the DTI and DSTI limits were temporarily removed. This contributed to the smooth functioning of the mortgage market. During 2021, however, the market began to show visible signs of overheating, partly as a result of fiscal support measures. In addition to high demand for loans, an easing of credit standards triggered by competition between lenders contributed to significant growth in new mortgage loans. This is evidenced by the fact that the share of risky mortgages, which the CNB regards as those with a DSTI ratio of over 40% and a DTI ratio of over 8, exceeded the levels observed in the second half of 2018, when the CNB first introduced limits on these ratios.

### Genuinely new mortgage loans and loans for house purchase

(annual totals in CZK billions)



Genuinely new loans for house purchase and mortgage loans significantly exceeded the levels recorded in previous years. Housing prices went up in all advanced countries, but the growth in the Czech Republic was among the highest. In view of a spiral between rising debt financing of property purchases and growth in property prices, which is causing systemic risks to increase, the CNB Bank Board decided to make use of its new legal powers. At its November meeting on financial stability issues, it approved a [provision of a general nature](#) capping the LTV ratio at 80%, the DTI ratio at 8.5 and the DSTI ratio at 45% with effect from 1 April 2022. According to the amendment to the Act on the CNB on which the new macroprudential mandate is based, banks may tolerate higher limits for applicants under 36 years – 90% for LTV, 9.5 for DTI and 50% for DSTI. The limits should be largely stable over time. Their main purpose is to prevent excessive growth in the share of loans with highly risky characteristics in banks' balance sheets, as this could lead to failures in the domestic banking sector in the event of highly adverse economic developments. The positive side-effects of the introduction of the credit ratio caps may include a reduction in the vulnerability of new mortgage borrowers and a curbing of the conditions for further significant growth in house prices. Here, however, other types of economic policies implemented by authorities other than the central bank play a much more important role.

#### Credit ratio caps

##### LTV = 80%

(90% for applicants under 36 years)

##### DTI = 8.5

(9.5 for applicants under 36 years)

##### DSTI = 45%

(50% for applicants under 36 years)

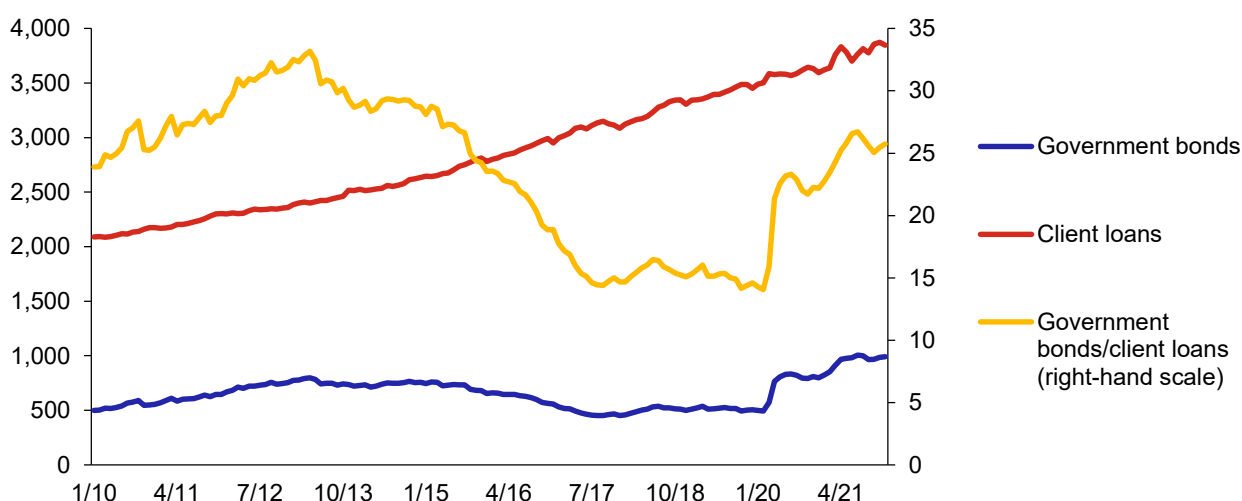


Climate change risks and policies to mitigate their effects on the financial sector are also becoming an important source of systemic risk. The Bank Board discussed the pilot version of a banking sector stress test focused on the impact of these risks. After the methodology for this test has been finalised, its first version will be published in December 2022 in the *Financial Stability Report – Autumn 2022*. CNB experts also analyse these risks in the non-banking segments of the domestic financial sector and take them into account in their research plans.

In its financial stability research, the CNB addressed several key topics last year, including the transmission of macroprudential regulatory tools, the interaction of cyclical and structural risks, and the relationship between monetary and macroprudential policies. In developing its modelling system, the CNB focused on supplementing the stress tests of financial institutions with satellite models to predict credit and property price growth and on estimating the risk premium on financial assets. Section II.8 *Economic and financial research* of this Annual Report discusses the CNB's research activities in more detail.

### Government bonds and the share of government bonds in banks' balance sheets

(in CZK billions and %)



Government support measures caused government debt to rise during the pandemic. As the domestic banking sector is one of the key creditors of the Czech government, the CNB annually assesses the [risks of concentration of domestic banks' exposures to government bonds](#) in a public finance stress test. The amount of Czech government bonds held by banks increased significantly. While still not reaching the 2010–2015 levels relative to client loans, it is nonetheless creating greater potential for sovereign risk. The key sovereign risk indicator in the test's *Baseline Scenario* rose to its highest level in the test's history. However, it was still well below the supervisory thresholds, so the CNB will not require banks to meet an additional capital requirement to cover the risk of concentration of these exposures in the next three years. However, the test results obtained using the *Adverse Scenario* indicate that a combination of negative economic developments and insufficiently credible consolidation measures after the pandemic ends could reduce the still robust investor confidence in Czech public finance sustainability in the medium term. The CNB will therefore pay increased attention to sovereign risk in its financial stability analyses in 2022.

## II.3 FINANCIAL MARKET SUPERVISION

In accordance with its statutory mandate, the CNB supervises entities operating on the financial market and lays down rules for their business to safeguard the stability of the financial system. Besides systematic regulation and supervision, it also issues penalties for non-compliance with the rules. It is part of the European System of Financial Supervision (ESFS) and works in cooperation with the European Systemic Risk Board (ESRB) and the European Supervisory Authorities for the banking industry (EBA), insurance and occupational

pensions (EIOPA) and securities and markets (ESMA). The CNB provides information about its supervisory work in its annual [Financial Market Supervision Report](#), where more detailed data are available.

### Financial market regulation

Last year, the CNB was actively involved in preparing a number of financial market laws, mainly in partnership with the Ministry of Finance. It prepared implementing decrees, issued a series of explanatory opinions and replied to questions from financial market participants on the application of regulations. On its website, it regularly updated a [complete list](#) of its valid decrees, provisions of a general nature, official information and opinions relating to the financial market. In 2021, it was involved in the preparation of the following pieces of legislation in particular:

- an amendment to the Act on Banks and the Act on Credit Unions which took effect on 1 October 2021 and transposed the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD5). Its main objective is to limit risks and strengthen the resilience of the banking sector. The regulation of financial holdings and mixed-activity financial holdings also underwent changes;
- an amendment to the Recovery and Resolution Act effective from 14 August 2021, intended to transpose the revised EU directive governing the framework for the recovery and resolution of credit institutions (BRRD II);
- a draft law on the Pan-European Personal Pension Product, which aims to adapt Czech law to the regulation on a Pan-European Personal Pension Product. The law under preparation regulates, among other things, the CNB's areas of competence and infringements connected with a directly applicable EU legal act;
- an amendment to certain laws connected with the capital market development strategy, which, among other things, introduces a discounted account for long-term investments and changes the rules for bonds. However, the draft law was not passed by the Chamber of Deputies in the eighth parliamentary term and is expected to be re-submitted to the legislative process in 2022;
- amendments to laws connected with the implementation of EU rules relating to the capital markets union, which aimed, among other things, to support markets for the growth of small and medium-sized enterprises, implement new prudential rules for investment firms and regulate the issuance of covered bonds and the cross-border marketing of investment funds. It also reacted to regulations in the area of green finance, a regulation on crowdfunding and a regulation amending the Insurance Distribution Directive (IDD). The draft law was not passed in the eighth parliamentary term of the Chamber of Deputies but was re-submitted to it in December 2021;
- an amendment to the Payment System Act aiming to ensure that Czech law is adapted to the amendment of an EU regulation on cross-border payments in the EU. For the purposes of the regulation, the amendment specifies supervisory authorities and offences for infringements of the law. It introduces dynamic currency conversion service providers as a new category of financial market entity and eliminates some shortcomings identified in practice. The amendment is expected to be approved and take effect in 2022;
- an amendment to the Consumer Protection Act and the Civil Code intended to transpose the directive on the better enforcement and modernisation of Union consumer protection rules. In the case of persons subject to CNB supervision, the Consumer Protection Act proposes CNB supervision of compliance with the prohibition of unfair terms in consumer contracts, the content of which the consumer could not influence because they were drawn up in advance (typically form contracts). The legislative process in the Czech Parliament is expected to start in 2022;
- the Act on Vetting of Foreign Investment, adopted in 2021, on the basis of which the CNB may be involved in vetting a foreign investment or in deciding to make an exemption from vetting a foreign investment where necessary to resolve a crisis or to avert the failure of a financial institution;

- an amendment to the government regulation on investment fund investments and techniques and instruments used for the purpose of portfolio management. Among other things, the amendment clarifies that the term “assets” means “net assets” in the case of investment funds. Other changes, for example, liberalise the limits on liquid assets for real estate funds and introduce rules on lending by funds for qualified investors in which special funds invest. The amendment took effect on 1 January 2022.

The following CNB decrees were discussed and promulgated in 2021:

- Decree No. 209/2021 Coll., on the remuneration and reimbursement of cash expenditures of liquidators of banks and credit unions. The Decree took effect on 27 May 2021;
- Decree No. 235/2021 Coll., amending Decree No. 67/2018 Coll., on certain requirements for the system of internal principles, procedures and control measures against the legitimisation of the proceeds of crime and financing of terrorism. The Decree took effect on 1 July 2021;
- Decree No. 354/2021 Coll., amending Decree No. 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms, as amended by Decree No. 392/2017 Coll. Most of the Decree took effect on 1 October 2021;
- Decree No. 399/2021 Coll., on credit ratios. The Decree took effect on 1 January 2022;
- Decree No. 485/2021 Coll., amending Decree No. 141/2018 Coll., on reporting of major security and operational incidents by persons authorised to provide payment services. The Decree took effect on 1 January 2022.

As part of its FinTech contact point, in January and September 2021 the CNB organised two round tables for financial market participants and those interested in introducing innovative technologies in the area of financial products and services. The first round table focused on the development of innovation in the payment system, while the second dealt with the licensing of innovative payment service providers in the Czech Republic.

### European regulation

Throughout the year, the CNB helped prepare opinions and comments on proposals for EU legal acts discussed in EU Council working groups and in trialogue negotiations with the European Parliament. The proposals included the following:

- an amendment to the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and an amendment to the regulation on prudential requirements for credit institutions and investment firms (CRD6/CRR3). The proposals are intended to strengthen financial stability while preserving the smooth financing of the economy and to contribute to the economic recovery after the crisis caused by the pandemic. They also, among other things, implement the final stage of Basel III and incorporate environmental, social and corporate governance (ESG) risks into the prudential framework;
- a proposal for a directive on consumer credit, which contains a revised regulatory framework for the provision of consumer credit;
- a proposal for a directive on credit servicers and credit purchasers, which aims, among other things, to foster the development of secondary markets for non-performing loans, increase the ability of credit servicers and credit purchasers to enter the EU market, set out conditions for the activities of credit servicers and credit purchasers and ensure a sufficient level of borrower protection;
- an amendment to the European regulatory framework on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II). The proposed modifications concern quantitative and qualitative requirements, reporting and disclosure and should, among other things, contribute to mobilising insurance and reinsurance companies to release funds for investment and economic recovery;
- a proposal for a directive establishing a framework for the recovery and resolution of insurance and reinsurance companies. It aims to ensure that supervised entities and competent supervisory authorities are better prepared to deal with possible failures in the insurance sector. The proposal is conceptually based on the existing directive in the banking sector (BRRD);

- an amendment to the directive on insurance against civil liability in respect of the use of motor vehicles and the enforcement of the obligation to insure against such liability. The main purpose of the new regulation is to improve and strengthen the protection of victims of motor vehicle accidents;
- an amendment to the prospectus regulation and an amendment to the markets in financial instruments directive (MiFID II). The two regulations are part of a set of legislative proposals known as the “capital markets recovery package” put forward by the Commission in response to the coronavirus pandemic. They jointly aim to reduce the economic impacts of the current crisis and support a swift recovery of capital market participants;
- legislative proposals concerning the capital markets union aimed at integrating and making capital markets more attractive in the EU. These include a proposal for a new regulation to create a single European access point and amendments to the markets in financial instruments regulation (MiFIR), the alternative investment fund managers directive (AIFMD) and the directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS);
- an amendment of selected directives (UCITS, AIFMD, MiFID II, Solvency II and IDD) aimed at integrating sustainability risks and factors into key sectoral legislation. Among other things, the amendment obliges firms to take into account customers’ sustainability preferences when assessing the suitability of a product offered, clarifies the obligations of financial corporations in relation to the assessment of sustainability risks and stipulates an obligation for financial product manufacturers and financial advisers to take account of sustainability factors when designing financial products;
- a proposal for a regulation on European green bonds, which regulates the conditions for the issuance of European green bonds and lays down requirements for bond issuers wishing to call their bonds “European green bonds” and for external reviews of such bonds;
- an amendment to the EU legislation on the prevention of money laundering and terrorist financing, which, among other things, further harmonises the rules and strengthens coordination and the unified approach to supervision in this area. In this context, it is proposed that specific tasks in the area of direct supervision be entrusted to a newly created EU authority. Another aim is to link the individual EU Member States’ centralised bank account registers with the registers of beneficial owners;
- a package of legislative proposals on digital finance, including a proposal for a regulation on digital operational resilience for the financial sector and a proposal for a regulation on markets in crypto-assets;
- a proposal for a regulation laying down harmonised rules on artificial intelligence. The proposal stipulates, among other things, harmonised requirements for systems using machine learning when evaluating the creditworthiness of natural persons;
- a proposal for a regulation amending the regulation on electronic identification and trust services for electronic transactions in the internal market as regards the establishment of a framework for a European digital identity.

The CNB was also involved in discussions about completing the Economic and Monetary Union and deepening euro area integration. However, the pace of progress decreased significantly as a result of the pandemic. An updated roadmap for completing the Banking Union was to have been approved in 2021. However, final agreement was not reached and the matter was postponed to 2022. No significant progress has been made on the establishment of a European Deposit Insurance Scheme either.

In addition, the CNB took part in the debates about the completion of the Capital Markets Union under the European Commission’s September 2020 action plan and participated in defining the national position on a whole range of other Commission legislative proposals. The CNB also actively addressed these issues through its representatives at the meetings in which it regularly participates and commented on the government’s position papers for representatives of the Czech Republic at those meetings.

As part of its work in the European Supervisory Authorities, the CNB contributed to numerous other implementing measures, guidelines and explanatory opinions on the application of regulatory rules.

### International cooperation on the financial market

In 2021, the CNB was actively involved in the work of the European Supervisory Authorities (ESAs). The ESAs in 2021 focused more on duties connected with the review of the regulations establishing the ESAs and on activities in the area of sustainable and digital finance. The ESAs submitted the first set of draft regulatory technical standards governing sustainability-related disclosures in the financial services sector to the Commission. During the preparation of the proposals, the CNB drew attention, among other things, to the absence of reliable underlying data for compliance with information duties by supervised entities.

One of the main priorities of the work of the European Banking Authority (EBA) in 2021 related to the implementation of the Basel III standards and a package of measures to reduce risks in the EU banking sector. The CNB advocated in the EBA that prudential requirements should not be relaxed in response to the effects of the pandemic, as this could negatively affect the ability of institutions and supervisory authorities to identify and manage future risks.

The European Insurance and Occupational Pensions Authority (EIOPA) stepped up its sustainability activities in 2021. It also focused its attention on the underwriting of non-life risks and adequate valuation thereof in the light of climate change and on the risk of worsening availability of insurance cover.

The CNB was also actively involved in the work of the European Securities and Markets Authority (ESMA). It supported most of ESMA's proposals on convergence of supervisory practices and the development of a single rulebook. In connection with ensuring convergence of supervisory practices, the CNB participated in a number of benchmarking exercises. The CNB's approach in this area was positively assessed in a benchmarking exercise aimed at reviewing the cooperation of home and host supervisory authorities in cross-border provision of services by management companies.

The CNB-appointed member of the EBA and EIOPA Boards of Supervisors is the Executive Director of the Financial Market Supervision Department Zuzana Silberová, who also became a member of the seven-strong EIOPA Management Board for the second time in 2020. The CNB-appointed member of the ESMA Board of Supervisors is the Executive Director of the Financial Regulation and International Cooperation Department Vojtěch Belling, who has also been a member of the ESMA Management Board since 1 January 2021.

Cooperation and exchange of information with partner supervisory authorities in other countries and active involvement in the work of supervisory colleges are also an integral part of CNB supervision. In 2021, the CNB was involved in eight supervisory colleges for European banking groups and acted as consolidating supervisory authority in one case. In response to the pandemic, the colleges focused mainly on assessing the capitalisation and risk profiles of supervised entities. They also assessed the recovery plans of individual banking groups. The CNB was also involved in the activities of ten supervisory colleges for European insurance groups. Their work concentrated mainly on compliance with capital requirements, especially in the context of the impacts of the pandemic, risk assessments of supervised insurance companies and group internal models. In addition, the CNB participated in the activities of newly established supervisory colleges in the area of combating money laundering for selected international financial groups and in several cases organised the colleges as the home supervisory authority.

Last year, the CNB was actively involved in the work of organisations publishing international standards in the area of financial market regulation and supervision (the IAIS, the IOPS and IOSCO). These organisations focused mainly on areas affected by the coronavirus pandemic. Emphasis was also placed on sustainable finance and digitalisation. Under a multilateral memorandum of understanding within the International Organization of Securities Commissions (IOSCO), the CNB worked with the other signatories on examining the activities of cross-border investors on the capital market.

### Licensing, approval and authorisation activities in the financial market area

As a financial market supervisory authority, the CNB grants authorisations (licences, permits and registrations) to the majority of service providers on the financial market. It also issues other permissions and approvals, for

example consents to the acquisition of qualifying holdings in regulated entities, approvals for senior officers, approvals of securities prospectuses and approvals of the publication of takeover bids.

#### Numbers of selected supervised entities

Categories of financial entities <sup>1)</sup>	As of 31 December 2020	Entries in 2021	Exits in 2021	As of 31 December 2021
Credit institutions	56	0	4	52
Insurance sector (insurance and reinsurance companies, Czech Insurers' Bureau and Exportní garanční a pojišťovací společnost, a.s.)	45	2	5	42
Pension management companies and retirement funds	48	3	0	51
Management companies and investment funds <sup>2)</sup>	459	69	17	511
Investment firms	74	4	3	75
Payment institutions and electronic money	39	6	3	42
of which: payment account information administrators	3	0	0	3
Small-scale payment service providers and small-scale electronic money issuers	104	1	16	89
Processors of domestic banknotes and coins	5	0	0	5
Non-bank consumer credit providers	85	2	4	83
Issuers of securities admitted to trading on a regulated market in the Czech Republic	107	16	13	110
Market infrastructure <sup>3)</sup>	10	0	0	10
Accredited entities <sup>4)</sup>	71	10	3	78
Bureaux de change	882	19	38	863

1) Including branches of foreign companies.

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

3) The role of entities in the position of a regulated market operator, a multilateral trading facility operator, an organised trading system operator, an operator of a settlement system with settlement finality, a central depository and a benchmark administrator.

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

Listed below are only the most important events from the licensing, approval and authorisation activities of the CNB in 2021, broken down by sector.

In the credit institutions sector, the CNB approved the merger of Raiffeisenbank a.s. and Equa bank a.s., as a result of which the latter ceased to exist as of 1 January 2022. Individual administrative proceedings relating to the acquisition of Moneta Money Bank by the PPF group were ongoing in the course of the year. The whole process has multiple steps and was not completed in 2021.

In the insurance sector, the cross-border merger of the Czech insurance companies AXA pojišťovna, a.s. and AXA životní pojišťovna, a.s. and the Slovak UNIQA poisťovňa, a.s., which are being wound up, into the successor UNIQA pojišťovna, a.s. was approved. In addition, consent to the acquisition of a qualifying holding



in ERGO pojišťovna a.s. by the German group S.V.Holding AG and consent to the acquisition of a qualifying holding in Pillow pojišťovna a.s. by companies from the RSJ group were issued.

In the non-banking investment firm sector, the CNB granted investment firm licences to MTX Capital Services a.s. and Fondée s.r.o.

In the payment system sector, the number of licence applications for payment institutions, electronic money institutions, small-scale payment institutions, small-scale electronic money issuers and payment account information administrators decreased slightly in 2021 compared with the previous year. In the course of the year, decisions were taken in proceedings on 37 applications (five permits were issued, three applications were rejected and 29 proceedings were discontinued). The high proportion of rejected applications and discontinued proceedings, which did not occur in other financial market sectors, was due to the generally low quality of business plans and applications. Payment institution licences were granted to ZNPay a.s. and Direct Fidoo Payments s.r.o. and a small-scale payment service provider licence was granted to Qerko s.r.o.

In the management company and investment fund sector, the CNB granted licences to EnCor Asset Management, investiční společnost, a.s., Allegro investiční společnost, a.s. (Quant Asset Management, a.s. as of 29 December 2021), DEKINVEST investiční společnost, a.s. and CREDITAS investiční společnost, a.s. and the autonomous investment funds Trigea nemovitostní fond, SICAV, a.s. and FINEMATIC SICAV, a.s. in 2021. Investment fund depository licences were acquired by Conseq Investment Management a.s., ATLANTIK finanční trhy, a.s. and Raiffeisenbank a.s. in 2021.

Rentea penzijní společnost, a.s. was granted authorisation to create three participation funds under the Supplementary Pension Savings Act in 2021.

In the area of securities issues, 93 decisions on the approval of documents connected with securities issues (securities prospectuses and supplements thereto) were issued in 2021. They mostly involved bond prospectuses of issuers active in property development. Four share prospectuses for offers to the public (two of which were public offers using the Prague Stock Exchange's START system) were also approved.

Securities of 16 issuers (bonds in 11 cases, shares in five cases) were newly admitted to trading on a regulated market. By contrast, securities of 13 issuers were excluded from trading (five of them were shares excluded at the decision of the issuer or regulated market operator and eight were bonds excluded because of repayment). The number of issues traded on the regulated market thus increased year on year from 107 to 110.

Compliance with legislation in the area of public offers was supervised throughout the year. More specifically, this involved correcting several incorrect advertisements in public offers of securities based on approved prospectuses and examining 17 cases of suspected public offering of securities (bonds) without a valid approved prospectus.

The CNB performed checks on issuers' reporting duties (checks on the annual and half-yearly reports of all more than 70 issuers and detailed checks on the application of IFRS in selected financial statements) and drew attention to deficiencies. These deficiencies were subsequently eliminated by the supervised entities.

In 2021, the CNB conducted one proceeding in the squeeze-out area, in which it granted prior consent to PPF Telco B. V. to the squeeze-out of minority shareholders of the issuer O2 Czech Republic, a.s.

In the market infrastructure area, there continued to be three trading systems operating in the roles of operators of regulated markets, multilateral trading facilities and organised trading systems (Burza cenných papírů Praha, a.s., RM-SYSTÉM, česká burza cenných papírů a.s. and 42 Financial Services, a.s.). In addition, there were two operators of settlement systems with settlement finality (Centrální depozitář cenných papírů, a.s. and the CNB as the operator of the Short-Term Bond System), one central depository (Centrální depozitář cenných papírů a.s. – Central Securities Depository) and two benchmark administrators, namely the Prague Interbank Offered Rate (PRIBOR) administrator (Czech Financial Benchmark Facility, s.r.o.) and the PX indices administrator (Burza cenných papírů Praha, a.s.).

During the year, the CNB approved two changes to the rules of the Central Securities Depository settlement system. The CNB also conducted its regular review and assessment of compliance of the Central Securities Depository with the regulation on central securities depositories. In addition, the CNB conducted two proceedings with the Prague Stock Exchange concerning the suspension of exemptions from the market transparency obligation under the markets in financial instruments regulation and assessed changes in trading rules.

In the area of testing retail distributors' expertise, the CNB conducted a comprehensive update of all three sets of examination questions for testing the expertise of distributors in the insurance, investment and consumer credit areas last year. These examination sets are used to test expertise by entities authorised by the CNB to examine financial service providers or intermediaries (accredited entities). As in the previous year, the highest number of professional examinations was taken by insurance distributors in 2021.

In addition to the entities listed in the table *Numbers of selected supervised entities*, the CNB supervises tens of thousands of other entities. They mostly include intermediaries of financial products such as insurance, consumer credit and investment services. As regards intermediaries of financial products, the introduction of fees for extending authorisations played a positive role. The fees led to a drop in the number of intermediaries who do not perform or do not intend to perform intermediary activities. Intermediaries of financial products paid more than CZK 33 million in administrative fees in 2021.

There are also entities operating on the financial market whose activities are not subject to CNB supervision. They include, for example, entities conducting asset administration comparable to asset management. These are small alternative investment fund managers whose activities do not require any authorisation. The CNB merely registers them in a list.

### Financial market supervision

In its supervisory work, the CNB continuously monitored the activity and financial performance of individual financial market entities and assessed the evolution of the market as a whole and its segments. The CNB performed financial market supervision in the areas of prudence, conduct of business and consumer protection, and anti-money laundering, in the form of both off-site surveillance and on-site inspections. Comprehensive assessments of the risk profiles of supervised entities, which help to determine supervisory priorities and further guide supervisory activities, are also an integral part of CNB supervision. Despite the increased attention paid by the CNB to the effects of the continuing coronavirus pandemic on the financial market, it continued to focus with the same – or even greater – intensity on the other areas monitored.

In the credit institutions sector, the CNB focused mainly on credit portfolio quality, capital adequacy and provisioning, changes in credit standards and risk appetite, and the profitability and viability of the business models of banks and credit unions. It monitored risk factors relating primarily to economic developments during the pandemic and ongoing structural changes (such as the level of provisions and the numbers and riskiness of mortgage loans provided). Following the temporary restriction on dividend payments introduced immediately after the outbreak of the coronavirus pandemic in spring 2020 in order to maintain the domestic banking sector's capitalisation and stability, the CNB informed banks in September 2021 that the amount of dividends in the period ahead would no longer be restricted across the board and that profit distribution proposals would be assessed in the standard supervisory process. However, it called on banks to maintain a conservative approach to profit distribution in order to maintain a safe level of capitalisation.

In the conduct of business area, the CNB comprehensively examined credit institutions' compliance with information duties to clients, compliance with duties linked with maintaining payment accounts, compliance with rules of conduct relating to the provision of investment services, compliance with the rules of consumer protection, and risk management in relevant areas, including the related configuration of procedures in internal rules.

Besides the continued implementation of the rules of strong authentication and equality of charges for cross-border payments, the CNB also dealt with the issue of banking identity, which was introduced by a number of credit



institutions last year. In order to protect the integrity of the financial market, the CNB continued to examine the adequacy of measures to prevent and detect market abuse by selected banks.

Given the digital transformation of financial services, a supervisory priority was to evaluate credit institutions' resilience to cyber risks and their ability to ensure business continuity. The management of outsourcing risks, such as those in the IT area, was also at the forefront of supervisory interest.

Combating money laundering was another key area that the CNB focused closely on in its supervisory work. A number of legislative changes further strengthening the regulatory framework in this area, changes which the CNB was extensively involved in preparing, took place in 2021. Increased supervisory attention was paid to the implementation of this new legislation. The CNB continued to expand the information on supervised institutions at its disposal and strengthen its risk analyses, which form the basis for the subsequent identification of appropriate supervisory procedures, in particular thematic on-site examinations.

In the insurance sector, the CNB continued to assess on an ongoing basis the capital positions and management of insurance companies in response to the ongoing pandemic. It closely monitored financial market developments and assessed their impacts on the assets administered by the insurance companies it supervises. The extraordinary reporting duties implemented in 2020 were continuously updated during 2021 to reflect the course of the pandemic and the risks associated with its impacts (focusing on insurance segments affected more strongly by the pandemic). In the area of premium sufficiency management for vehicle liability insurance, which the CNB examines on an ongoing basis, insurance companies' internal governance processes for internal premium sufficiency management systems are gradually being modified and streamlined. Insurance companies are responding to the supervisory findings and remedial measures. The CNB also continued to evaluate information system and information technology risk in insurance companies. It mainly assessed IT infrastructure, cyber security and the overall standard of governance in this area.

As regards conduct of business and consumer protection in the insurance sector, the CNB paid increased attention to market developments. The market is experiencing a rapid shift in technological innovation and digitalisation with potential impacts on the quality of services provided to clients (the conclusion and administration of insurance policies, and claims settlement). This is placing increased risk management and mitigation demands on insurance companies in the area of conduct of business and consumer protection. A large part of the supervisory work was devoted to compliance with regulatory requirements in the area of product governance (the creation and distribution of insurance products), focusing in particular on the transparency and objectivity of information on insurance products provided to end-customers. As regards insurance products affected by the pandemic, the CNB dealt mainly with issues related to insurance of guarantees against travel agency bankruptcy. Supervisory work was also significantly affected by numerous activities under the umbrella of the European Insurance and Occupational Pensions Authority (EIOPA) and related analytical work based on quantitative data, which is now used in standardised form for conduct of business supervision.

In the pension management companies and retirement funds sector, the CNB monitored pension companies' capital adequacy and assessed their capital management systems, especially in the context of rising interest rates, which may adversely affect the revaluation reserve for securities, and also in the context of the effects of the implementation of IFRS 9. As regards the supervision of transformed funds, the CNB focused mainly on compliance with the requirement to cover liabilities with assets at all times, which is relevant again mainly because of the gradual increase in key interest rates.

At the European level, a regulation requiring sustainability to be taken into account in the activities of financial institutions across sectors took effect. In this regard, the CNB monitored the preparedness of supervised entities to publish information on whether their investments aim to be socially responsible, i.e. whether their business takes into account social responsibility and sustainable growth factors.

In its supervisory work in the consumer credit area, the CNB focused mainly on conducting examinations of providers of consumer credit secured by property. The examinations concentrated on assessing creditworthiness and checking rules and procedures for the acceptance and valuation of collateral on consumer credit for house

purchase, and in particular on determining whether mortgage loans not tied to a specific property are over-collateralised. As part of its supervisory work, the CNB issued a new supervisory benchmark No. 2/2021 *Regarding the exemption from the obligation to acquire general knowledge*. At the same time, the CNB conducted supervisory examinations at 77 companies to check compliance with the conditions for applying the exemption from the general knowledge requirement in the case of persons who have relevant work experience on the financial market.

Given an increased number of consumer submissions drawing attention to the demanding of advances as a guarantee for the provision of consumer credit, mainly by unauthorised providers, the CNB issued a warning about this practice. The CNB received 338 submissions from the public in the consumer credit area. However, it recorded a significant decrease in submissions regarding unjustified billing for costs related to early repayment of consumer credit for house purchase. Such submissions fell by almost 60% compared with 2020. This suggests that the majority of consumer credit providers are abiding by the opinion issued in this matter by the CNB.

In the non-bank investment firms sector, the CNB focused on the application of new prudential rules in the form of the regulation and directive on the prudential supervision of investment firms (IFR/IFD). The new legal framework is tailored to investment firms and takes into account the risks to which they are or may be exposed. These include risk to customers, risk to the market, risk to the firm, concentration risk and liquidity risk. Under the new framework, the CNB identified prudential categories of investment firms and collected the first data, including K-factors, which quantify the above risks. In partnership with the European Securities and Markets Authority (ESMA), the CNB conducted a survey on the scope of investment firms' foreign activities and analysed the way in which investment firms manage the offering of investment products to customers (product governance). Checking product governance was also the main objective of the CNB's examinations. In addition, on-site inspections dealt with the activities of branches and tied agents of foreign companies providing investment services. In the investment firm sector, the CNB received 76 submissions from the public, most of which concerned foreign companies.

As regards management companies and investment funds, supervision was focused on the valuation and reporting of financial instruments in accordance with IFRS, and in particular on the choice of business model and its effect on the configuration of processes in the company. In cooperation with ESMA, the CNB conducted a peer supervisory review in the area of fees and costs. It found that compliance with European legislation is high among managers of undertakings for collective investment in transferable securities (UCITS) and the funds managed by them, due in part to strong competition in this area. The CNB's examinations in the area of fund investment revealed discrepancies in the valuation of illiquid assets and shortcomings in outsourcing.

In the non-bank payment service providers sector, the CNB's on-site inspections focused primarily on the implementation and effectiveness of anti-money-laundering measures, the configuration of systems for the protection of payment service users' funds, and compliance of payment service providers' activities with information in business plans. In its off-site surveillance, the CNB checked compliance with the information duty for online payments abroad and identified and removed obstacles on the part of payment service providers maintaining payment accounts accessible online to access by users using the service of indirect submission of payment orders and information about payment accounts. In connection with the implementation of the European guidelines on anti-money laundering colleges, the CNB organised one international college and participated in a number of other colleges established by foreign supervisory authorities during the year. The CNB also investigated 21 submissions from the public drawing attention to shortcomings in the provision of payment services by non-bank providers.

In the bureau de change sector, the CNB paid particular attention to checking compliance with anti-money laundering duties. In mystery shopping inspections, it examined whether bureaux de change were carrying out customer identification and not circumventing this obligation by dividing up the amount exchanged. During its on-site inspections, the CNB focused on exchange transaction record-keeping and storage documents and information obtained during customer identification. The CNB also investigated 14 submissions from the public drawing attention particularly to disadvantageous exchange rates. The number of complaints received

decreased again in year-on-year terms, mainly because of the ongoing pandemic, a related significant decline in the number of foreign tourists and a further drop in the number of bureaux de change in the Czech Republic.

In its supervision of retail distributors, the CNB conducted inspections focusing, for example, on compliance with the requirements for professional qualifications of insurance intermediaries, the adequacy and appropriateness of services provided by investment intermediaries, entry of the links of supplementary pension savings intermediaries in the register, and distributors' products. It also focused its supervisory investigations and checks on how accredited entities organise remote examinations for professional qualifications and follow-up training programmes. In its comprehensive on-site inspections in retail distributors, the CNB paid particular attention to compliance with the rules of conduct towards clients and compliance with the requirements for professional qualifications. In connection with a new reporting duty for financial service intermediaries, it conducted an information campaign to provide methodological support to distributors. The CNB dealt with a total of 229 submissions from the public about the activities of retail distributors and accredited entities. The CNB shared its supervisory findings at a regular meeting with representatives of retail distributors' associations.

### Enforcement

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

In 2021, the CNB issued a total of 137 decisions, 124 of which became final and conclusive. Appeals were lodged against decisions in 34 cases. In 25 cases, decisions on the appeals had been issued by the end of 2021.

The highest number of decisions (29) was issued in the payment system area in 2021. The second most strongly represented area was collective investment, with 21 decisions issued.

### Statistics on administrative penalty proceedings, broken down by legislation

Legislation	No. of proceedings continuing from 2020	No. of proceedings opened in 2021	No. of proceedings closed in 2021	Total fines imposed in 2021 (in CZK thousands)
Act on Banks and Act on Credit Unions	5	15	12	6,000
Insurance Act and Insurance and Reinsurance Distribution Act	2	19	15	6,020
Capital Market Undertakings Act	11	21	26	10,595
Act on Management Companies and Investment Funds	5	22	21	1,150
Bureau de Change Act	1	6	6	695
Consumer Protection Act	1	1	1	100
Payment System Act	22	15	25	3,750
Banknote and Coin Circulation Act	2	1	3	300
Consumer Credit Act	13	15	8	6,240
Act on Certain Measures against Money Laundering and Terrorist Financing	2	6	6	10,000
Act on the Czech National Bank	1	0	1	50
Financial market supervision, total	65	121	124	44,900

The following passage lists a selection of the most important penalty decisions issued in 2021. Company names can be given only for decisions issued in areas where publication of decisions is permitted by law.

The CNB imposed its highest fine of all in 2021 in the investment firm sector under the Capital Market Undertakings Act – Notesco Limited was fined CZK 6 million for the provision of investment services without having the relevant authorisation from the Czech National Bank.

The highest fines imposed under the Act on Banks – CZK 3 million in each case – were imposed on UniCredit Bank Czech Republic and Slovakia, a.s. for breaches in the area of investment service provision and bureaux de change activities, and on PARTAPP Corp. s.r.o. for carrying on unauthorised banking business.

In the insurance area, the CNB imposed the highest fine – CZK 1.5 million – for failure to introduce an effective governance system for premium sufficiency in motor third-party liability (vehicle liability) insurance. In this sector, the law does not allow the CNB to publish the name of the company on which the fine was imposed.

The CNB imposed several fines on securities issuers for publicly offering bonds without publishing a securities prospectus, the highest of which being CZK 500,000 on UNIPRO SPE01 SE.

In the consumer credit sector, large fines of CZK 3 million and CZK 1.5 million were imposed on non-bank consumer credit providers Creamfinance Czech, s.r.o. and Rerum Finance, s.r.o. respectively. The most serious violation consisted in incorrect assessment of loan applicants' creditworthiness.

In the distributors sector, the CNB imposed the highest fine – CZK 1 million – on Mr Petr Barták for unauthorised consumer credit intermediation. The highest fine in the insurance and reinsurance distribution area – CZK 600,000 – was imposed on Broker Trust, a.s. Fines of CZK 500,000 in the investment intermediation area were imposed on SMS finance a.s. and Modrá pyramida stavební spořitelna, a.s.

In the bureau de change area, the highest fine in 2021 – CZK 400,000 – was imposed on Terms Advertisement s.r.o. for unauthorised bureau de change activities.

The highest fine under the Act on Certain Measures against Money Laundering and Terrorist Financing – CZK 5 million – concerned insufficiently effective transaction assessment. The law does not allow the CNB to publish the name of the penalised entity in this case either.



In the area of non-bank consumer credit providers, the CNB found major shortcomings in the assessment of applicants' creditworthiness, for which it imposed fines totalling CZK 4.5 million.

## II.4 RESOLUTION PROCEDURES

The CNB set a binding intermediate objective for banks for meeting the minimum requirement for own funds and eligible liabilities (MREL). All banks met the objective using own funds or a combination of own funds and eligible liabilities. In doing so, they took an important step towards the ultimate objective of creating sufficient MREL-eligible instrument capacity by the end of 2023.

The MREL is another important indicator, alongside the capital requirement, aimed at increasing banks' ability to withstand shocks and, where necessary, resolving crises in banks without recourse to public funds. The MREL allows clients, analysts and investors to compare individual banks and their evolution over time, and is an important indicator for assessing the stability and soundness of banks.

The CNB updated the resolution plans for all large and medium-sized banks. In the case of banks which are members of cross-border banking groups, resolution colleges will be established for joint decision-making on plans and the relevant MREL. The CNB is a member of six colleges chaired by the Single Resolution Board (SRB) and one which it chairs itself. The plans and MREL decisions for other banks are in the direct

competence of the CNB. The annual planning cycle ends with the notification of banks of the main elements of the plan and the announcement of the updated MREL.

In the area of increasing resolvability, the CNB prepared a policy of “expectations for banks”. The CNB’s approach is based on the expectations published by the SRB. The expectations are focused on all relevant areas of the planning process:

- governance,
- loss absorbing and recapitalisation capacity,
- operational continuity in resolution and access to financial market infrastructures,
- liquidity and funding in resolution,
- information systems and data requirements,
- separability and restructuring,
- communication.

The aim is to gradually increase banks’ resolvability so that they meet all the expectations by the end of 2024.

In the area of resolution financing, the CNB prescribed another regular contribution of CZK 4.33 billion to the Resolution Fund in 2021. The fund currently has around CZK 21 billion in contributions and its target level for the end of 2024 is expected to be around CZK 36 billion.

The CNB also takes part in crisis simulation exercises as either an organiser or a participant. Their purpose is to increase the preparedness of the CNB and other institutions for the eventuality of resolution. In 2021, the CNB participated in a crisis simulation exercise organised by the SRB, which was aimed at testing the resolution of a major EU-based banking group with a systemically important subsidiary in the Czech Republic. The exercise tested the procedural steps, including cross-border cooperation between the CNB and the SRB, the adoption of joint decisions in a resolution college and the correct and timely use of the formal documents by means of which the CNB would implement resolution.

## II.5 CURRENCY AND PAYMENTS

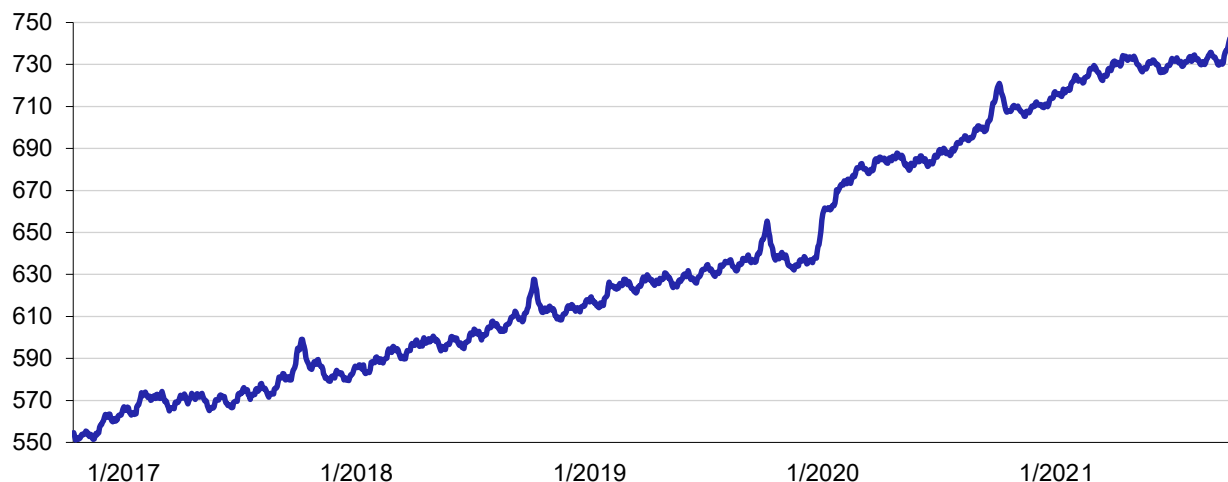
### II.5.1 Currency in circulation

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

In 2021, the value of currency in circulation rose by CZK 19.2 billion compared with 2020, reaching CZK 731.1 billion as of 31 December 2021.

**Currency in circulation – 1 January 2017 to 31 December 2021**

(in CZK billions)



CZK 2,000 banknotes accounted for almost half (48.5%) of the value of currency in circulation. A detailed breakdown of banknotes and coins in circulation as of 31 December 2021 is available on the [CNB website](#).

The numbers of banknotes and coins in circulation rose by 12.5 million and 64 million respectively in 2021. Producers supplied 99.9 million banknotes, 85.1 million circulating coins (including sets of coins made of basic metals), 33,200 gold coins and 79,400 commemorative silver coins to the CNB. The CNB's cost of producing these banknotes and circulating and commemorative coins, including the cost of material, was CZK 1,412 million.

The CNB shredded 93 million banknotes accepted from circulation and evaluated as unfit for recirculation due to wear or damage. Only 2.1 million coins accepted from circulation were rejected as unfit for recirculation.

A total of 1,394 counterfeit and altered Czech banknotes were seized in the Czech Republic in 2021. No counterfeit or altered Czech coin was detected. There were 2.9 counterfeits per million banknotes in circulation. The CZK 2,000 note was the most frequently counterfeited banknote, followed by the CZK 1,000 note. The total value of the counterfeit and altered Czech banknotes seized was CZK 2.638 million.

Cash turnover in Czech currency at the CNB's cash offices amounted to CZK 1,200 billion in 2021, down by CZK 6.3 billion, or 0.5%, from a year earlier. The CNB's cash offices received 540 million banknotes and 317.3 million coins from circulation and issued 556.7 million banknotes and 281.8 million coins into circulation.

The CNB issued the first-ever CZK 10,000 commemorative silver coin into circulation in 2021. The coin, which is 100 mm in diameter and weighs 1,000 g, marked the 100th anniversary of the establishment of Great Prague. It also issued [new precious metal coins](#): three CZK 200 commemorative silver coins, one CZK 500 silver coin with a hologram, two CZK 5,000 gold coins from the new *Municipal Heritage Sites* cycle and one special CZK 10,000 gold coin.







### Supervision of compliance with the Act on the Circulation of Banknotes and Coins

Cash circulation, together with the related rights and duties of the CNB, banks, legal entities and natural persons, is regulated by the Act on the Circulation of Banknotes and Coins. Under this act, the CNB primarily supervises:

- banknote- and coin-handling processes in credit institutions performing cash operations and handlers of domestic banknotes and coins,
- operators of self-service machines,
- persons authorised by the CNB to organise special courses on the identification of suspected counterfeit or altered banknotes and coins,
- the fulfilment of the general obligations of natural persons and legal entities.

In 2021, the CNB conducted a total of 11 inspections focusing on compliance with duties under this act:

- five inspections of banks, during which it conducted on-site inspections in 28 branches and seven cash-handling centres and tested 116 domestic banknote processing machines, 59 euro banknote processing machines and 30 deposit ATMs. It also conducted 140 mystery shopping inspections focusing on the exchange of damaged banknotes,
- two inspections of handlers of domestic banknotes and coins, during which on-site inspections were conducted in four cash-handling centres and 15 domestic banknote-processing machines and 21 euro banknote-processing machines were tested,
- four inspections of operators of anonymous devices, during which it tested 127 self-service cash registers in 34 shops. It also conducted 140 mystery shopping inspections focusing on the acceptance of damaged banknotes.

As of 31 December 2021, the CNB had completed ten inspections.

### II.5.2 Non-cash payments

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

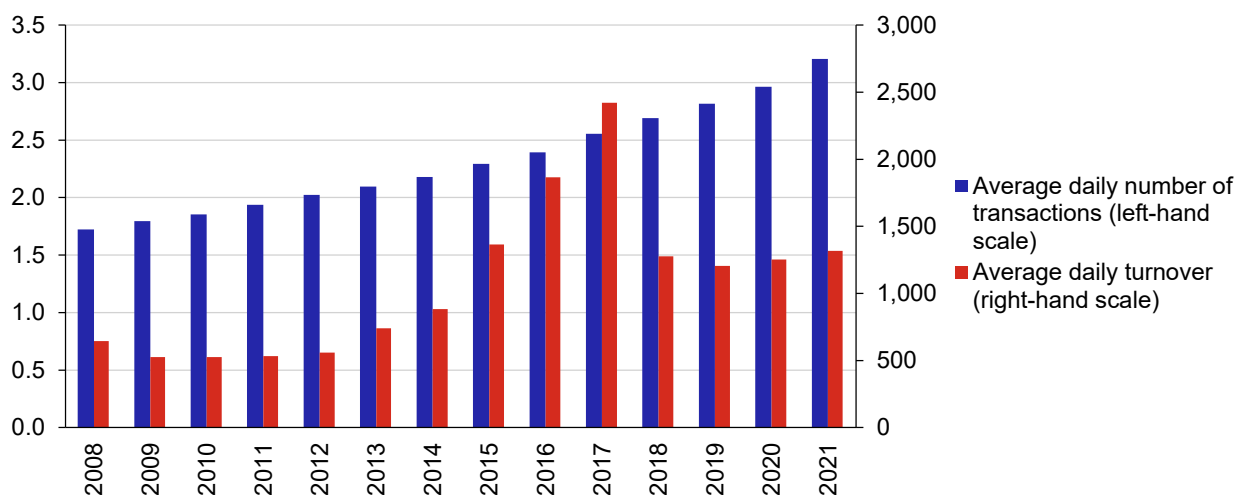
#### CERTIS – interbank payment system

The CNB uses the CERTIS system to process interbank payments in the Czech Republic. Banks, credit unions and foreign bank branches are participants in this system. As of 31 December 2021, CERTIS had 47 direct participants with their own accounts and four third parties (card payment clearing houses and securities clearing and settlement institutions).

CERTIS processed 808.1 million transactions in 2021 (up by 8.6% year on year) with a total value of CZK 332,138 billion (up by 5.6%). The system processed a daily average of 3.21 million transactions. The average daily turnover was CZK 1,318 billion. After the sharp decline in 2018, which was caused by a change in the structure of monetary policy operations where banks switched from overnight deposits to two-week collateralised deposits due to an increase in the two-week repo rate, the average daily turnover is growing slightly again.

#### CERTIS – average daily number of items and average daily turnover

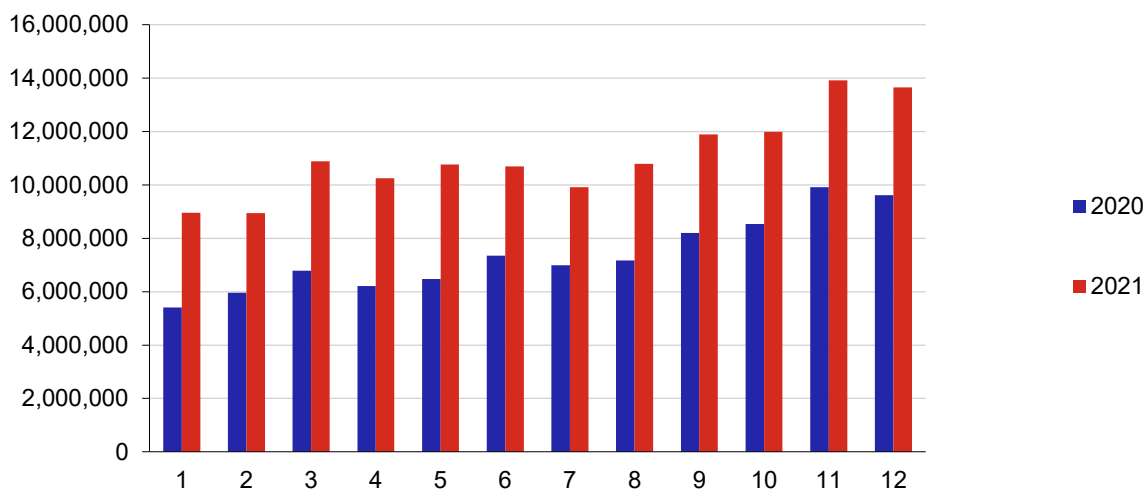
(in millions of transactions and CZK billions)



An instant payment service has been in operation in CERTIS since 1 November 2018. An instant payment is a one-off electronic payment in Czech koruna processed in seconds by instant payment scheme participants. The service is available 24 hours a day, seven days a week. On 1 June 2021, the upper limit on one instant payment was increased from CZK 400,000 to CZK 2.5 million.

Thirteen CERTIS participants had joined the instant payment scheme as of the end of 2021. In 2021, instant payments accounted for around 17% of all payments up to the upper limit on one instant payment, and their numbers were significantly higher year on year in all months of the year.

#### CERTIS – number of instant payment transactions in individual months





### SKD – Short-Term Bond System

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

As of 31 December 2021, a total of 86 asset accounts – belonging to 50 clients (securities owners) and 12 custodians (securities managers) – were registered in SKD. The system records bonds issued by the CNB and government bonds issued by the Ministry of Finance.

The securities recorded in SKD are used, among other things, as collateral for the intraday credit that the CNB extends to banks for smooth accounting purposes within CERTIS. The CNB also uses them for repo operations and the Ministry of Finance for daily liquidity management of the Single Treasury Account. On average, 112 transactions a day were processed in SKD in 2021. The average daily turnover was CZK 813 billion.

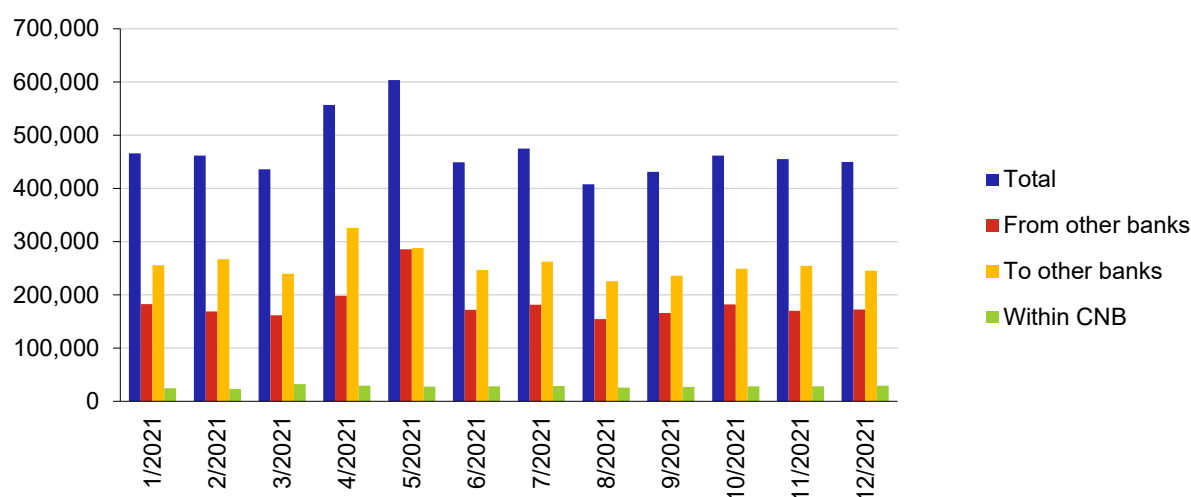
### ABO – the CNB's accounting and payment system

The CNB keeps its internal accounts and the accounts of its clients in the ABO system. At the end of 2021, it was maintaining 23,706 accounts, of which 3,392 were internal accounts, 4,129 CNB employee accounts and 16,185 accounts of legal entities. The majority of the accounts of legal entities – 15,521 – are Treasury accounts in the Czech currency, along with 273 Treasury accounts in euro. Treasury accounts are used for state budget revenues and expenditure and other financial operations of the state. Detailed information about the involvement of the CNB in the Treasury accounts system is available in section II.7.2 *The CNB as the bank of the state*.

Most clients use the CNB's internet banking to manage their accounts. In all, 22,488 users were registered in the system as of the end of 2021.

The ABO system processes over one million transactions a day on peak days. The total number of transactions increased by 4.8% and the number of client orders by 1.3% compared with 2020.

### ABO – average daily number of transactions



### Promotion of smooth and efficient payments and clearing

The Act on the CNB tasks the CNB, among other things, with promoting smooth and efficient payments and clearing and contributing to the safety, soundness and efficiency of payment and settlement systems and to the development thereof (oversight). The CNB's long-term priority in this area is the cyber-resilience of systemically important financial infrastructures in the Czech Republic (CERTIS, SKD and the Central Securities Depository).

This is assessed against the recommendations of the Bank for International Settlements (BIS), the International Organisation of Securities Commissions (IOSCO) and the ECB. The CNB found that the cyber-resilience of all

these infrastructures increased in 2021. The CNB also participated in discussions on methodology in the area of smooth and efficient payments and clearing within the ECB.

## II.6 STATISTICS

In its statistical activities, the CNB focuses primarily on the collection, processing and publication of data from the financial sector. These data are then used in the formulation and implementation of the CNB's objectives in the areas of monetary policy, financial market supervision and financial stability. They also serve the needs of the relevant international and domestic organisations, such as the European Central Bank (ECB) and the Czech Statistical Office (CZSO). They are also widely used by experts and the general public.

In the area of macroeconomic statistics, the CNB – in cooperation with the CZSO – compiled and published [external statistics](#) data and [quarterly financial accounts](#) data in accordance with the ECB's amended statistical regulations in force since 2021. At the same time, the CNB and the CZSO continued to work on harmonising the methodology and data of the quarterly and annual financial accounts. In coordination with the IMF, the OECD, the ECB and Eurostat, working groups started consultations on topics and methodological documents for updating the international manuals for national accounts and balance of payments. Updated international standards are expected to be issued in 2025. As regards external statistics and [government finance statistics](#), the CNB – in cooperation with the CZSO – participated in the statistical capture of government measures related to the coronavirus pandemic and the first drawdown of funds from the Recovery and Resilience Facility allocation. These funds are part of the financial programme of the NextGenerationEU recovery plan approved by the European Council in December 2020.

As regards [monetary and financial statistics](#), the CNB recently published another series of harmonised statistics through the [ARAD](#) information system, this time quarterly statistics on the assets and liabilities of pension funds, which provides users with data in time series starting in the third quarter of 2019. Following the revision of the ECB regulation on payments statistics and the EBA guidelines on fraud reporting, the CNB issued a new decree on the submission of certain payment statements and also prepared a new methodology for reporting entities to collect the required data. In addition, it focused on covering the new requirements arising from the ECB's recast regulation on the balance sheet items of credit institutions and of the monetary financial institutions sector and implemented them in national reporting.

In the area of [microdata statistics](#), the CNB continued to work in cooperation with banks and with the support of the Czech Banking Association on improving the data quality of the regular collection of granular data on loans provided to legal entities. At the same time, the CNB made the data in the AnaCredit system available to end users. In cooperation with the Czech Banking Association, the CNB launched a project to connect the Central Credit Register (CCR) to AnaCredit. Upon completion of the project, information on the credit commitments of legal entities and self-employed persons based on data from the AnaCredit system will be exchanged between banks and foreign bank branches through the Central Credit Register.

Turning to [supervisory statistics](#), reporting was consolidated in the past year after the transition to the new [SDAT](#) collection system, and preparations got underway for migration of the final reporting area – capital market statistics. In the area of credit institutions, significant adjustments were made to the methodology, including the amendment of the decrees on reporting, triggered by a change in European legislation. At the level of the European supervisory authorities, legislative and methodological aspects of supervisory reporting were addressed, in particular major revisions of key legislation and related methodologies. Last but not least, issues raised by European integrated data collection projects aimed at streamlining reporting were discussed in detail. In selected areas of European and national reporting, a number of regular and ad hoc detailed surveys were conducted on the quality of the reported data. The CNB then provided selected data to the relevant European supervisory authorities, other national supervisory authorities in the EU and international organisations which use the relevant data to ensure the performance of their mandate.

The gradual transfer of the areas of reporting to the CNB from the old MtS statistical and supervisory data collection system to the new SDAT system continued in line with the relevant schedule. This process, which began in 2019, will be concluded in 2022 with the migration of the last reporting area – capital market statistics. A new European Single Electronic Format (ESEF) was introduced in the area of reporting duties for issuers of securities to unify the annual reports of issuers within the EU and to simplify their automated processing. The CNB arranged the collection of reports in this format through the SDAT collection system. It also implemented requirements based on European legislation concerning the publication of the list of approved and notified prospectuses and supplements thereto. On the basis of these requirements, the CNB expanded the information on the securities prospectuses it publishes on its website and ensured the automatic transmission of this information to the European Securities and Markets Authority (ESMA). At the same time, it automated the receipt and processing of information on prospectuses from foreign national supervisory authorities.

The CNB administers the Central Register of Accounts system. Pursuant to an amendment of the relevant law, information not only about accounts, but also about safe deposit boxes operated by credit institutions and selected payment institutions is sent to the system. In 2021, eligible applicants sent almost 1.7 million requests for account or client information to the system, more than twice as many as in 2020. Most requests for information come from the financial authorities and customs administration.

## II.7 FINANCIAL MARKET OPERATIONS

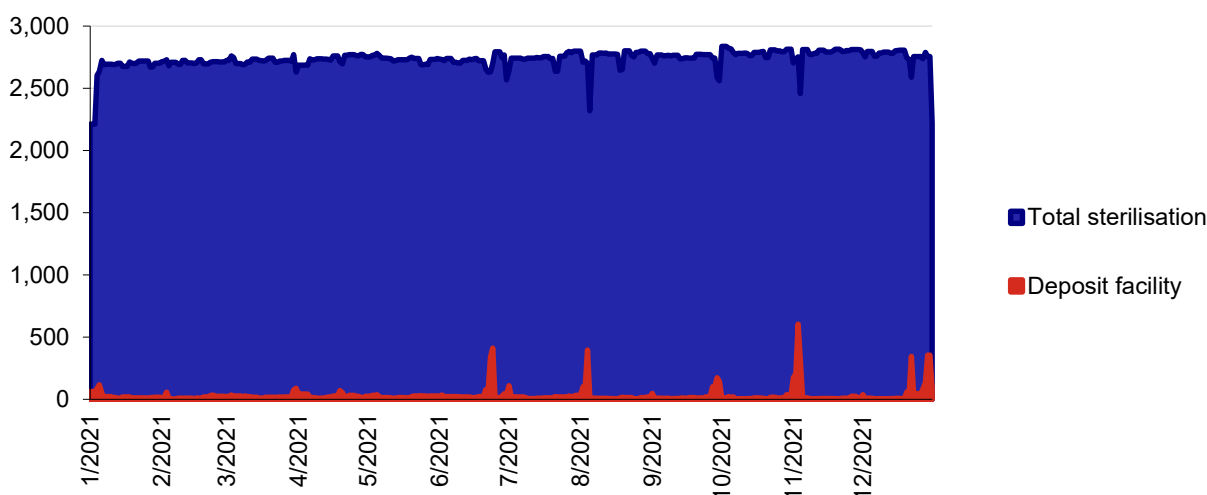
In 2021, the CNB's main monetary policy instruments continued to include interest rate operations (repo operations and automatic facilities). The CNB Bank Board sets three interest rates: the repo rate, the discount rate and the Lombard rate. The main monetary policy rate is the two-week repo rate. The discount and Lombard rates provide the floor and ceiling respectively for short-term interest rates on the money market. Information about the changes in monetary policy interest rates is available in section II.1 *Monetary policy and economic developments*.

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

In 2021, the amount of liquidity absorbed through the deposit facility was limited. The facility was used to a greater extent at the end of the minimum reserves calculation cycles. Recourse to the lending facility was rare. The total average amount of excess liquidity absorbed was CZK 2,736 billion. Of this, 98.9% was absorbed through repo operations and 1.1% through the deposit facility.

### Excess liquidity

(in CZK billions)



Another instrument used is collateral exchanges. In these technical operations, the CNB usually exchanges securities settled in the Central Securities Depository for securities settled in the Short-term Bond System. These operations are used not to affect the banking sector's excess liquidity, but to provide liquid securities to banks, for instance for obtaining intraday credit. This instrument was not used by banks in 2021.

The CNB's two-week liquidity-providing repo operations were announced three times a week until June 2021 (on Mondays, Wednesdays and Fridays) and since then have been announced only weekly (on Mondays). The CNB also provided a liquidity-providing instrument for some non-bank entities licensed by the CNB. The instrument was introduced for precautionary reasons and was not used by non-bank institutions in 2021. Nonetheless, it was one of the factors which helped calm financial market sentiment.

The CNB launched liquidity-providing operations back in October 2008 in response to the outbreak of the financial crisis and their existence is important for the stability of the domestic financial market. Although banks did not use these instruments actively in 2021, the CNB considers it appropriate to keep them available.

In the managed float exchange rate regime, the central bank reserves the option of intervening in the foreign exchange market if necessary. The CNB did not intervene in the foreign exchange market in 2021. The CNB publishes information about [foreign exchange trading](#) on its website.

### II.7.1 International reserves management

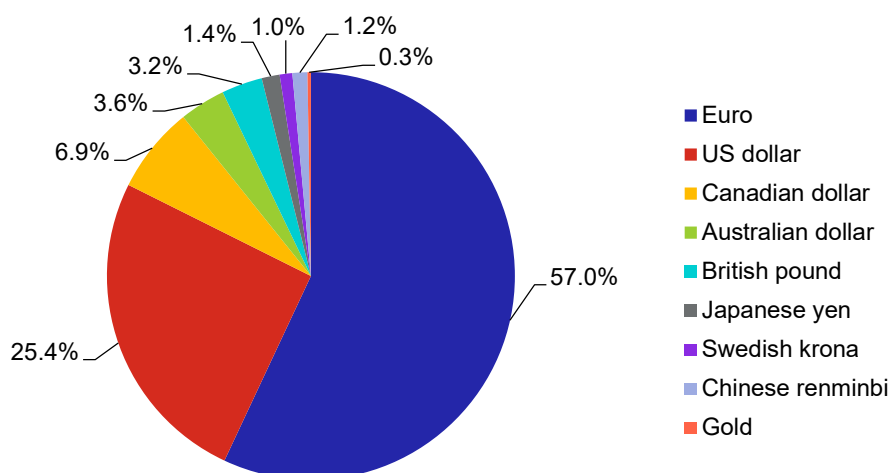
The CNB manages its international reserves, which are made up of foreign assets in selected convertible currencies. These assets are used mainly to support the CNB's independent monetary policy-making and as a source of foreign exchange liquidity for CNB clients. At the end of 2021, the reserves totalled CZK 3,811 billion, equivalent to EUR 153.3 billion or USD 173.6 billion. International reserves form the bulk of the CNB's assets – they accounted for more than 98% of the total at the end of 2021. The CNB regularly publishes the size and structure of the reserves in the [Financial markets](#) section of its website.

The actively managed part of the international reserves represents almost 94% of the total and is made up of portfolios whose strategic allocation is a result of the CNB's internal decision-making processes. For these purposes, their size and performance are calculated on the basis of market revaluation. The rest of the reserves are made up of claims on the International Monetary Fund (IMF) in special drawing rights (SDR) and monetary gold held by the CNB. The principles for international reserves management take into account the function performed by the international reserves and pay due regard to security, liquidity and returns.

The CNB manages most of its international reserves internally. The largest part of the reserve portfolio is invested in debt securities issued by governments of economically advanced countries, selected government-guaranteed bonds and bonds issued by international institutions with the highest credit rating. Other instruments used for international reserves management include shares, exchange-traded funds (ETFs), repos, covered bonds, deposits with central banks, futures, and interest rate, currency and equity swaps. All creditor positions vis-à-vis private counterparties are backed by financial collateral.

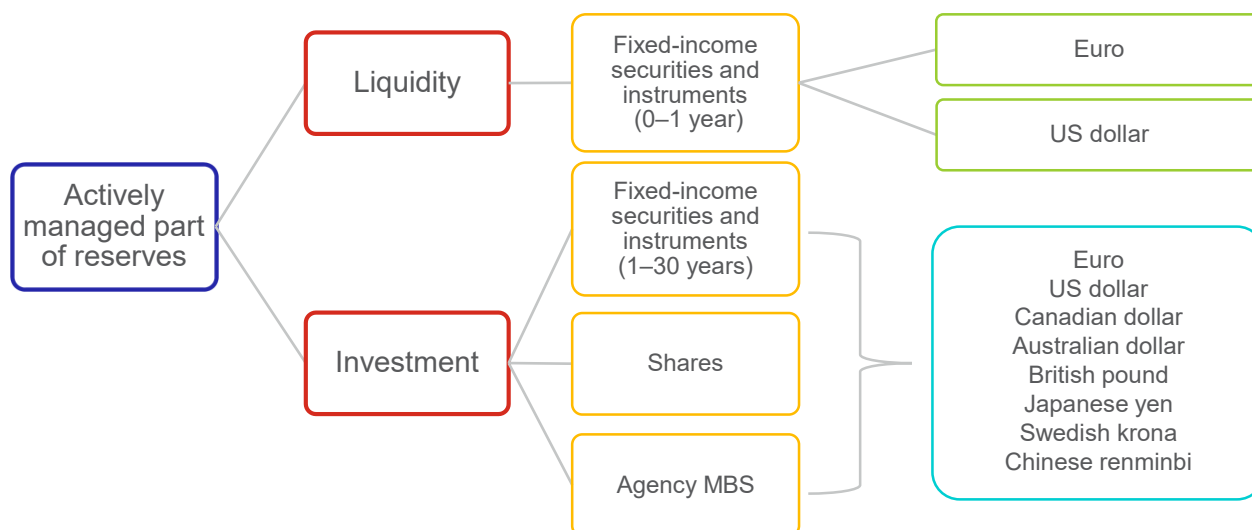
The market value of the actively managed part of the international reserves stood at CZK 3,576 billion in koruna terms, up by CZK 68.8 billion year on year. From the perspective of strategic asset allocation, the rise was due most of all to purchases of foreign currency from clients and client deposits, and to portfolio returns. Changes in the exchange rate of the koruna against the reserve currencies had mixed impacts and reduced the koruna value of the international reserves overall. The share of the euro in the actively managed part of the international reserves fell by almost 2 percentage points to 57%, mainly due to a depreciating euro. The share of the US dollar rose from just under 23% to over 25%. The CNB reduced the size of the USD/JPY currency forward portfolio. This led to a decrease in the share of the Japanese yen of almost 2 percentage points. Growth in the volume of the Chinese portfolio led to an increase in the share of the Chinese renminbi by almost a percentage point.

### Currency structure of the actively managed part of the international reserves (net of liabilities) as of 31 December 2021



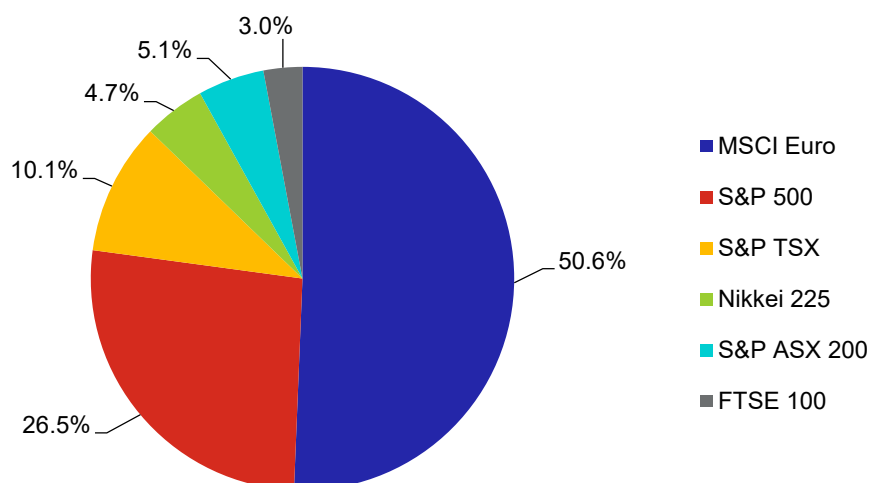
The actively managed part of the international reserves is divided into two parts (tranches) which differ in investment horizon, risk parameters and expected returns. The ratio between the tranches is managed with due regard to the IMF methodology used to estimate the appropriate size of international reserves. In 2021, the CNB decided to adjust the size of the tranches. The liquidity tranche was reduced from 36% to 31% of the actively managed part of the reserves during the year, while the investment tranche was increased from 64% to 69%. The liquidity tranche consists of fixed-income investment instruments with a residual maturity of up to one year in euros and US dollars, which, if necessary, can easily be converted into money without any major risk of capital losses. The investment tranche contains financial instruments which make it possible to generate higher returns in the longer run but at the same time bear higher risk. They include, for example, bonds with longer maturities, mortgage bonds (covered bonds issued in certain countries and specific mortgage-backed securities (MBS) guaranteed by selected US agencies) and shares. The size of the equity portfolio is targeted at 20% of the investment tranche and stood at 16% of the actively managed part of the international reserves at the end of 2021. In 2021, the CNB decided to increase its portfolio of Chinese government and policy bank bonds. This portfolio amounted to the equivalent of almost USD 1.9 billion at the end of the year.

### Internal division of the actively managed part of the international reserves into the liquidity and investment tranches



An internally managed equity portfolio passively replicating the UK's FTSE 100 index was established in 2021. It stood at GBP 0.3 billion at the end of the year. However, the vast majority of the equity portfolios are managed externally. The equity portfolios, which are managed by BlackRock and State Street Global Advisors, are invested on the following markets using the relevant benchmark indices: European (MSCI Euro), US (S&P 500), UK (FTSE 100), Japanese (Nikkei 225), Canadian (S&P TSX) and Australian (S&P ASX 200). The MBS portfolio, which equals approximately 1.8% of the investment tranche, is managed exclusively by the external managers BlackRock, BNP Paribas, Goldman Sachs and UBS. All five external managers follow the Global Investment Performance Standards.

#### Structure of the equity portfolio as of 31 December 2021



In 2021, the liquidity tranche recorded a loss of 0.36% and the investment tranche a return of 3.40% (in both cases, this is the weighted average of the returns and losses on the individual portfolios measured in their own currencies). The loss on the liquidity tranche was strongly affected by persisting negative euro area interest rates, as the euro portfolio makes up a large majority of the tranche. The return on the investment tranche was due mainly to stock market growth, while growth in yield curves resulted in capital losses on the bond portfolios. The MBS portfolio and gold also made negative contributions to the overall return.

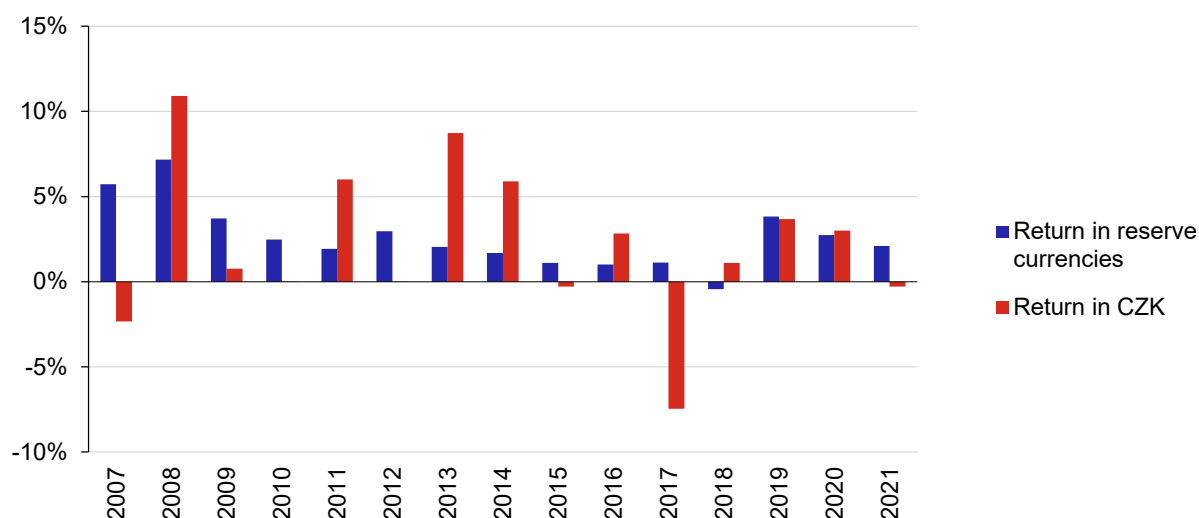
#### Returns and losses on the portfolios of the liquidity and investment tranches (in portfolio currencies)

Tranche	Euro	US dollar	Canadian dollar	Australian dollar	British pound	Japanese yen	Swedish krona	Chinese renminbi	Total
Liquidity	-0.53%	+0.24%	---	---	---	---	---	---	-0.36%
Investment	+4.86%	+2.15%	+2.87%	+1.07%	-1.21%	+1.43%	-0.31%	+5.21%	+3.40%

The total yield on the actively managed part of the international reserves (the weighted average of the returns on the portfolios measured in their own currencies) was 2.11%. Combined with the changes in the exchange rate of the koruna against the reserve currencies, this resulted in a koruna loss of 0.29%.



### Comparison of the total return on the actively managed part of the international reserves in 2021 with previous periods



The CNB is guided by economic and financial factors when making investment decisions. However, according to the criteria it currently applies, part of its investments can be described as investments to improve the environment, social conditions and governance, also collectively referred to as socially responsible or environmental, social and governance (ESG) investments. The CNB has long been investing in the debt instruments of multinational development banks, such as World Bank institutions and the European Investment Bank. In light of the missions of these institutions, the bonds they issue can be regarded as socially responsible investments. The bonds of international institutions accounted for 2.52% of the actively managed part of the international reserves at the end of 2021.

### Overview of socially responsible investments

Bond category	Amount (in EUR millions)	Share in international reserves
Environment	622.60	0.43%
Social area	803.95	0.56%
Sustainable development	250.10	0.17%
Multinational development banks	3,629.19	2.52%
Total ESG	5,305.84	3.69%

Part of the reserves consists of monetary gold and the part of the claim on the IMF that has been paid or is maintained in a foreign currency, i.e. the reserve position with the IMF, SDR holdings and an IMF bilateral loan. This non-koruna financial position vis-à-vis the IMF amounted to SDR 3.1 billion at the end of 2021. It increased by SDR 2.1 billion during the year due to an increase in SDRs allocated by the IMF in the [SDR general allocation](#). Part of the gold held by the CNB was used for the production of commemorative coins in 2021, and part was bought in line with the procedure for gold reserve holdings approved in 2019, aimed primarily at maintaining the amount of gold held by the CNB at a certain minimum level. The CNB thus had around 10.6 tonnes of gold at the end of 2021. However, the share of gold in the central bank's international reserves will remain low, as the CNB does not consider this commodity to be an optimum instrument for international reserves management.

## II.7.2 The CNB as the bank of the state

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

As of 31 December 2021, the CNB maintained 15,800 accounts for the state and the public sector. A total of 470,000 transactions took place on the Treasury accounts on average per day.

### Support for Treasury liquidity management

Most of the accounts which the CNB maintains for the state are included in the Single Treasury Accounts. The single accounts system allows for effective use of all the state's temporary liquidity to finance the state budget on an ongoing basis. In practice, this means that the time mismatch between state budget revenues and expenditures is constantly balanced. This was also very beneficial in 2021, when there were greater fluctuations in expenditure and income owing to the pandemic.

There are two single accounts: koruna-denominated and euro-denominated. The koruna-denominated Single Treasury Account consists primarily of state budget revenue and expenditure accounts, state financial assets and liabilities accounts, revenue and customs offices' accounts, state funds accounts and the National Fund accounts. Since 2019, the Ministry of Finance has also offered the option of setting up time deposits for selected accounts established under the koruna-denominated Single Treasury Account. The funds of the National Fund, euro debt service funds and foreign funds of state organisational units are deposited in the euro-denominated account.

Every morning, the CNB compiles an estimate of revenues and expenditures on the accounts included in the Single Treasury Accounts in cooperation with the Ministry of Finance. During the day, this estimate is compared with the actual situation. The CNB invests any end-of-day liquidity surplus on the financial market. Conversely, it covers any end-of-day shortfall by borrowing from the market. The CNB conducts all these operations on behalf of the Ministry of Finance. In the past year, the Ministry of Finance additionally preventively strengthened the Treasury's available liquidity by conducting short-term money market operations (liquidity-providing repo operations), which were settled by the CNB. The daily balances on the Single Treasury Accounts are maintained at CZK 30 million and EUR 0 million, even though incoming and outgoing payments worth CZK 10–70 billion are settled every day. In previous years, the Ministry of Finance targeted a daily balance of around EUR 10 million on the euro-denominated account, but in mid-April 2021 it started to zero the account at the end of the day due to negative interest on the balance.

The Single Treasury Accounts system increases the amount of liquidity available for financing a state budget deficit and allows for effective planning of government bond issues. This reduces the refinancing risk of the state and generates budgetary savings due to lower debt servicing costs.

### Support for state debt management

In the area of state debt management, the CNB carries out primary sales of both short-term and long-term government bonds for the Ministry of Finance and acts as administrator of the issues.

In 2021, the Ministry of Finance continued the high pace of issuance activity in connection with a further increase in the budget deficit. The CNB organised 14 auctions of T-bills, with sales totalling CZK 85.9 billion, 75 auctions of government bonds, in which investors purchased bonds with a nominal value of CZK 395.4 billion, and one auction of euro-denominated government bonds under Czech law, amounting to EUR 0.2 billion. As administrator, the CNB made coupon payments for government bonds and payments of principal on two maturing koruna issues. It also organised coupon payments and repayments of principal for issues of government saving bonds.

## II.8 ECONOMIC AND FINANCIAL RESEARCH

Economic and financial research at the CNB helps create an analytical and knowledge base for monetary and macroprudential policy-making. In the CNB's organisation structure, the Economic Research Division in the Monetary Department and the Financial Research Division in the Financial Stability Department are responsible for research.

The CNB presents its research projects primarily in two publication series: the CNB Working Paper Series (ten papers published in 2021) and the CNB Research and Policy Notes (four papers published in 2021). These internationally reviewed research papers cover a wide range of subjects, from a description of the monetary policy modelling system to macro-financial risk analyses.

The CNB Bank Board awards an annual prize for the best financial stability and monetary policy research papers issued in the previous year. In 2021, the award went to two papers: The authors of the first winning paper [A Prolonged Period of Low Interest Rates: Unintended Consequences](#) are Simona Malovaná, Josef Bajžík, Dominika Ehrenbergerová and Jan Janků, who work in the Financial Stability Department. The other winning study is titled [The g3+ Model: An Upgrade of the Czech National Bank's Core Forecasting Framework](#) prepared by a broad team of authors comprising current and former Monetary Department staff.

In 2021, the CNB continued to work with the Czech Statistical Office (CZSO) on conducting the Czech version of the international Household Finance and Consumption Survey (HFCS) coordinated by the European Central Bank (ECB). The second round of the survey was successfully conducted despite the hampered conditions during the lockdowns related to the epidemic situation. Data for the first year of the national HFCS survey make it possible to analyse key characteristics of the financial situation of Czech households in line with the standards of the international HFCS survey. After the further harmonisation and adjustment of the data, this opens up opportunities for research into consumer behaviour, monetary and fiscal policy transmission and macro-financial analysis, including cross-country comparisons. At the end of 2021, the CNB and the CZSO formally agreed to continue working together in conducting the HFCS survey over the period 2023–2025.



In September, the CNB organised its traditional Research Open Day. Jiří Slačálek (ECB) was the keynote speaker at the event. In his address, he presented the international HFCS survey, including its research applications relevant to monetary policy and financial stability. As part of the conference, Jan Brůha, Director of the Economic Research Division of the Monetary Department, presented an evaluation of the HFCS survey and gave examples of how its outputs can be used for the CNB's analytical needs.

In September, the CNB organised an online international conference [Expectations in Dynamic Macroeconomic Models](#) on modelling the expectations of firms and households in macroeconomic models. The conference brought together dozens of participants, including leading academics and central bankers, among them the president of the Federal Reserve Bank of St. Louis, James Bullard.

In November, the CNB, in cooperation with the Bank of England, organised an [online workshop](#) of the ESCB Research Cluster on Financial Stability, Macroprudential Regulation and Microprudential Supervision. The workshop focused on sharing the latest research findings of European central banks, and the speakers included Professor Thorsten Beck.

An online seminar [Exchange Rate: A Shock Absorber or a Shock Generator?](#) was held in December on the role of the exchange rate for open economies. The main speaker at the event was Professor Paul de Grauwe (London School of Economics and Political Science).

Up-to-date information on research at the CNB can be found in the [CNB Research News](#) newsletter, which is published four times a year. More detailed information on research publications, seminars and conferences (upcoming and past) and other research activities can be found in the [Research](#) section of the CNB website.

## II.9 EUROPEAN AND INTERNATIONAL COOPERATION

### [European Central Bank, European System of Central Banks and European Systemic Risk Board](#)

CNB Governor Jiří Rusnok and Deputy Governor Tomáš Nidetzký participated in four meetings of the General Council of the European Central Bank (ECB), where the governors of all the central banks of the EU countries are represented. The meetings focused on reviewing macroeconomic, fiscal and monetary developments in the EU and around the world. Other topics discussed included the relationship between monetary policy and inequality, socially responsible investment by central banks, business cycle synchronisation, the macroeconomic impacts of NextGenerationEU and central bank digital currencies.

CNB representatives were actively involved in the activities of the 13 committees of the European System of Central Banks (ESCB) and a large proportion of its sub-committees and working groups. The CNB was also involved in the process of assessing relevant draft EU and Member State legislation and selected ECB materials in the form of written consultations with the ECB. The CNB commented on the ECB's draft opinions on a draft amendment to the Act on the Magyar Nemzeti Bank, a proposal for a regulation on digital operational resilience for the financial sector and a draft Austrian law extending the powers of the national Fiscal Advisory Council and establishing a Productivity Board.

CNB Governor Jiří Rusnok and Deputy Governor Tomáš Nidetzký also participated in four meetings of the General Board of the European Systemic Risk Board (ESRB). These meetings focused mainly on measures to reduce impediments to the use of macroprudential capital buffers during times of adverse economic developments, recommendations on restraints on profit distribution by financial institutions, the provision of equivalence for UK central counterparties and the preparation of ESRB warnings and recommendations to selected EU countries based on the identification of risks related to the residential property market in EU countries.

### [Relations with EU Council, EU Committee](#)

Within the bounds of its competence, the CNB participates in the meetings of some formations of the EU Council and its working and advisory bodies, mainly the informal meetings of the Economic and Financial



Affairs Council (ECOFIN) and the meetings of the Economic and Financial Committee (EFC) and the Economic Policy Committee (EPC).

In its role as an advisory body to the government, the CNB also helps prepare the positions of government representatives for relevant negotiations and the general positions of the Czech Republic on strategic and legislative EU documents and its participation in the European Commission's public consultations. The CNB does so primarily through its involvement in the activities of the EU Committee at the working and government levels and the Committee's ministerial coordination groups. Within the framework of the EU Committee, the CNB submits a report to its members every six months summarising developments regarding its relations with the ESCB and the ECB.

In 2021, the CNB stepped up its preparations for the Czech Republic's presidency of the EU Council in the second half of 2022. The CNB regularly commented on the relevant parts of the programme of the presidency trio of France, the Czech Republic and Sweden and the documents of the Office of the Government on the sectoral agendas of the Czech presidency of the EU Council from which the Czech presidency's own political priorities should emerge in the first half of 2022. The CNB was involved in the work of interdepartmental groups for the preparation of presidency events in the Czech Republic. It also worked in cooperation with the Ministry of Finance and the Office of the Government on preparations for the informal meeting of the ECOFIN Council to be held in Prague in September 2022. Its attendees will include representatives of the ECB's management and the governors of the EU Member States' central banks.

### International Monetary Fund

The CNB actively engaged in discussions about the international monetary and financial system at the International Monetary Fund (IMF). CNB Deputy Governor Marek Mora attended the yearly spring and annual meetings of the IMF and World Bank which, like in 2020, took place in a virtual format. The CNB continued to be involved as a creditor in providing assistance to IMF member countries in 2021.

The IMF returned to its standard activities during 2021 following the restrictions adopted in response to the pandemic. It resumed its assessments of countries, including the Czech Republic, as part of its bilateral surveillance work. An IMF Article IV mission to the Czech Republic took place in November. From the CNB's perspective, the important topics were the real economy, the monetary policy stance, the inflation outlook, developments in the banking sector and the financial stability area, and the framework for combating money laundering. In its assessment, the IMF also focused on budgetary issues, climate change mitigation policies and the growth paradigm shift. The IMF supported the CNB's monetary policy stance and stated that tightening macroprudential tools, in coordination with other measures, was capable of reducing the increasing risk-taking by households and slowing rapidly rising property prices.

In response to the pandemic, the IMF approved a general allocation of Special Drawing Rights (SDRs) of USD 650 billion (SDR 456 billion) in August 2021. This resulted in a huge increase in SDRs allocated to its members. The CNB received SDR 2.1 billion under the allocation. In 2022, negotiations will continue on voluntary channelling of part of the allocated SDRs to support countries hit by the pandemic.

The review of financial sector assessment programmes and the comprehensive surveillance review, which had been postponed, were completed. Other topics addressed by the IMF included a review of the concessional financing framework for low-income countries and a response to countries' growing indebtedness. The CNB commented on all these topics through the Executive Director of the constituency of Central and Eastern European countries, of which it is a member.

### CNB activities in other international organisations

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

CNB representatives participated in four meetings of the Basel Consultative Group (BCG), which is part of the Basel Committee on Banking Supervision (BCBS). The talks mainly addressed the impact of the coronavirus pandemic on financial market supervision and regulation. The discussion also focused on the proportionality of the Basel standards, the financial risks associated with climate change and financial inclusion. Deputy Governor Tomáš Nidetzký participated in the 33rd Annual Conference of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) and in a panel discussion at a conference co-organised by the BCBS, the BSCEE and the Financial Stability Institute (FSI) on regional experience of the pandemic and financial market supervision priorities.

Deputy Governor Marek Mora represented the CNB at a meeting of the Regional Consultative Group for Europe of the Financial Stability Board (RCGE FSB). Its focus was the effects of the pandemic, especially from the global and regional financial stability perspective, responses to the vulnerability of non-bank financing, the effects of climate change on financial stability and the risks of reliance on third-party services (outsourcing). A number of seminars were also held, for example on the risks of USD funding and facilitating cross-border payments. CNB representatives also participated in the meetings of a number of OECD working bodies, including the Economic Policy Committee and the Committee on Financial Markets.

In 2021, the CNB continued to work closely with major rating agencies (Moody's, Fitch Ratings and Standard & Poor's) on setting the Czech Republic's sovereign credit rating. In this context, the CNB organised a visit of representatives of Fitch in Prague in November 2021 as part of a review mission in the Czech Republic. Other meetings were held virtually due to the ongoing pandemic. None of the agencies changed the Czech Republic's rating in 2021, nor did they change its rating outlook for the near future.

### Foreign technical assistance

The CNB's systematic and active approach makes it a sought-after provider of foreign technical assistance. In the area of technical assistance programmes, the CNB planned to hold five seminars and ad hoc consultations based on requests from partner central banks in 2021. In the end, these planned events were mostly held online due to the ongoing pandemic.

Four online webinars were held in 2021, focusing on money circulation, the coordination of central bank supervisory and monetary policy, payment systems and macroeconomic forecasting during the pandemic. A total of 59 specialists from 19 central banks participated in the webinars. The participants evaluated very positively both the content of the webinars and the high level of expertise and professionalism of the CNB experts who delivered the lectures.

CNB staff also provided technical assistance in cooperation with the IMF. As part of its missions, they participated in six online events for the central banks of Gambia, Kenya, Kyrgyzstan and Rwanda.

The CNB also continued its involvement in an EU-funded programme to enhance the capacity of central banks in the Western Balkans with a view to integrating them into the ESCB. Thanks to temporarily favourable epidemic conditions, it was possible to organise a week-long study visit in the Resolution Department for experts from the Central Bank of Albania and the supervisory authorities of Bosnia and Herzegovina.





*J. S. Mearns*

**III.  
MANAGEMENT  
AND ORGANISATION**



— KAREL ENGLIŠ

# AT THE HELM OF THE NATIONAL BANK OF CZECHOSLOVAKIA

Karel Engliš's efforts to stabilise the Czechoslovak currency culminated with the first devaluation in February 1934. As a result, Vilém Pospíšil, who advocated Alois Rašín's ideas, resigned as governor of the National Bank of Czechoslovakia. The president then appointed Karel Engliš to the post.

After Pospíšil's resignation, the Bank's management, which had worked at the bank of issue since the establishment of the Czechoslovak currency in 1919, decided to leave. Karel Engliš was therefore forced to select a new chief executive director and deputy executive director. He decided to appoint František Peroutka, whom he knew as a trade policy expert and who had served, at his instigation, as minister of finance, industry, trade and business in the 1920s, along with Václav Vaněk, who had worked as chief executive officer of a large Czechoslovak bank. As close associates of Engliš, they helped to implement not only his monetary policy ideas, but also his efforts to secure the country economically at a time of impending war.



V p r a z e, d n e 23. ú n o r a 1934.

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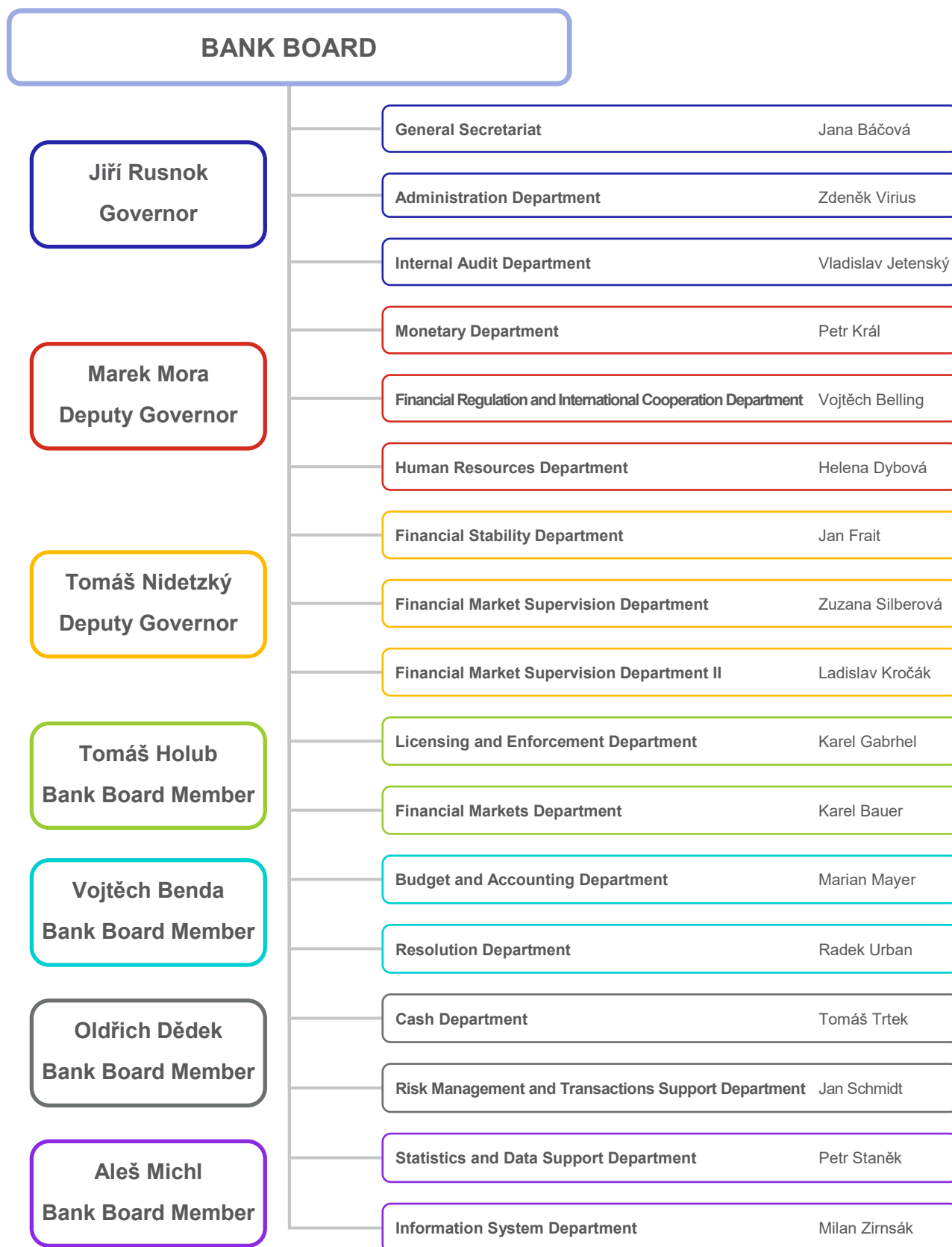
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V p r a z e, d n e 23. ú n o r a 1934.



### III. MANAGEMENT AND ORGANISATION

#### III.1 ORGANISATIONAL CHART AS OF 31 DECEMBER 2021





The CNB has a two-tier management system. Fundamental decisions relating to the maintenance of price stability, which is the CNB's primary objective, the maintenance of financial stability and other tasks corresponding to the CNB's statutorily defined areas of competence are taken by the Bank Board. Responsibility for implementing the Bank Board's decisions and the day-to-day running of the bank is delegated to the executive directors of the CNB's organisational units (departments).

The CNB's organisational structure consists of a headquarters in Prague and six out-of-Prague offices in Brno, Ostrava, Plzeň, Hradec Králové, Ústí nad Labem and České Budějovice, where the regional offices of selected CNB organisational units (the Cash Department, the Licensing and Enforcement Department, Financial Market Supervision Department II, the Statistics and Data Support Department and the Administration Department) are located. These offices mainly perform duties in the financial market supervision area and duties related to managing money reserves, maintaining accounts under the Act on Budgetary Rules and the accounts of other clients under the Act on the CNB, and making payments for those clients. The out-of-Prague office in Ostrava operates the Central Register of Accounts.

### Bank Board

The members of the Bank Board, in addition to collectively managing and deciding, oversee the activities performed by the CNB's organisational units according to a scheme defined by the Bank Board (see the organisational chart of the CNB as of 31 December 2021).

### Executive directors of departments and branches

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

Four changes in the posts of directors of organisational units were made in 2021. Petr Staněk became Director of the Statistics and Data Support Department on 1 January 2021, Tomáš Trtek was made Director of the Cash Department with effect from 1 May 2021, Vladislav Jetenský took the helm of the Internal Audit Department on 1 October 2021 and Helena Dybová was appointed Director of the Human Resources Department on 1 November 2021.

### Organisational units

Departments, subdivided into divisions (or in the case of the Cash Department into divisions and branches), are the organisational units of the CNB. In their areas of competence defined in the CNB Organisational Statute, they are responsible for the implementation of the bank's main and ancillary activities.

Coordination and advisory bodies – committees, expert committees and project and coordination 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.

Several major changes took place in the structure of the organisational units and in the activities performed by them in 2021.

A model of three lines of defence against risk materialisation was incorporated into the CNB's governance system and regulations on 1 January 2021. The model is based on the principle of dividing risk management powers, responsibilities and tasks among the lines in order to distribute and deploy governance capacity and instruments effectively for successful defence against risk materialisation and its consequences,

Based on newly adopted European regulations relating to the general rules on securitisation and crowdfunding, the Financial Market Supervision Department and the Financial Market Supervision Department II have been supervising new entities since 1 June.

On the same date, internal control was transferred from the Internal Audit Department to the General Secretariat, where it was linked organisationally with the other functions of the second line of defence (operational risk management, compliance, ethics framework and legal service).

The Bank Board approved a new CNB Code of Ethics on 27 October 2021. The Code, which took effect on 1 January 2022, revises the principles of professional ethics for the central bank's staff, in particular those regarding the risk of conflicts of interest and the misuse of confidential information. Stricter rules are set out for newly defined categories of employees with access to pricing, supervisory or business information. The aim of the Code is to stipulate, check and enforce the rules of conduct of CNB employees in order to help prevent the CNB from incurring any damage to its reputation and maintain public confidence in the proper functioning of the CNB and performance of the duties conferred upon it by law. Compliance with the Code will continue to be supervised by the CNB's five-member Ethics Committee appointed by the Bank Board.

Organisational changes were implemented in the Administration Department on 1 December. A new CNB Visitor Centre Division was established and the CNB's exhibitions, archive and special library functions were merged into one unit. At the same time, the Regional Support Division was abolished and its activities were taken over by the Premises Administration Division and the Technological Division. The CNB Social Facilities Division was renamed the CNB Congress Centre Division.

### III.2 HUMAN RESOURCES

The main challenge for the CNB in the human resources area in 2021 was to stabilise and develop its workforce in the persisting adverse epidemiological situation. A key prerequisite for the successful achievement of the CNB's objectives in 2021 was thus the ability of managers to lead work teams in a new, hybrid style of work. The CNB therefore supported the development of managers' communication skills and provided training across the entire staff spectrum so that teams could effectively and safely manage remote access.

Business areas not amenable to the hybrid work model continued to implement regular rotation of work teams in 2021 while abiding by all anti-epidemic measures.

#### Recruitment and presentation of the CNB on the labour market

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

The CNB remains an attractive employer for students of economics, currently ranking in fifth place in the banking sector. However, it offers a much broader range of career opportunities. The CNB had planned to be present at several job fairs in 2021. Due to the pandemic, however, people interested in working for the central bank had the opportunity to meet CNB human resources staff only at the Šance fair at the Prague University of Economics and the Profesia Days event in Prague-Letňany.

The CNB advertises vacancies on its website and on job sites and actively seeks suitable candidates and contacts them through professional social networks.



### Employee benefits

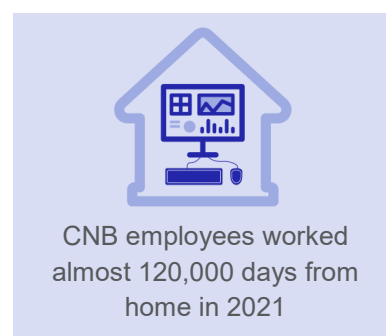
The CNB provides its employees with a wide range of financial and non-financial benefits under a collective agreement. The main ones include life insurance and private pension contributions, canteen food services, health care provision and long-term sickness allowance. Thanks to the less severe pandemic situation, sports, social and cultural events, which bring employees together and foster team spirit, could be held to a greater extent than in 2020, but they continued to be very limited in number.

### Personnel expenses

Personnel expenses, comprising wage costs, including temporary sick leave payments, obligatory insurance contributions and other social expenses (pension insurance, health care and food allowances), training expenses and employee benefits, amounted to CZK 2,013 million in 2021, up by about 5.8% on a year earlier.

Growth in personnel expenses compared with previous years was seen mainly in wages and benefits, while staff training costs declined slightly because of the pandemic and because training was moved mainly online.

As in 2020, the CNB's employees worked largely from home in 2021. The CNB provided staff who worked from home with the necessary IT equipment and also offered its employees a range of work-life balance training activities. In 2021, the CNB paid its employees telework-related compensation of CZK 1.3 million, almost four times the amount paid in 2020. The number of days worked from home also increased from 90,000 to 120,000.



The Bank Board decided to freeze its base salaries and bonuses at the 2020 level in 2021 (and later extended the freeze to 2022).



**Salaries of Bank Board members in 2021**

(in CZK)

Bank Board Member	Gross salary <sup>1)</sup>	Net salary <sup>2)</sup>
Jiří Rusnok	5,868,295	4,307,871
Marek Mora	4,727,032	3,480,456
Tomáš Nidetzky	4,695,010	3,494,764
Aleš Michl	4,012,469	2,999,922
Tomáš Holub	3,984,343	2,979,530
Oldřich Dědek	3,979,458	2,938,465
Vojtěch Benda	3,974,070	2,972,082

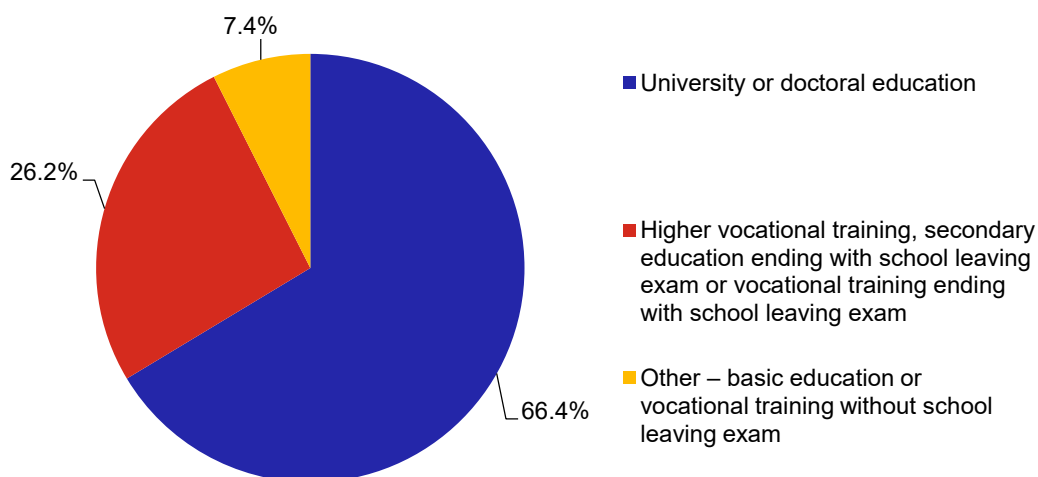
1) The gross salary comprises the basic wage, performance-related bonuses and compensation for salary pursuant to the Labour Code.

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

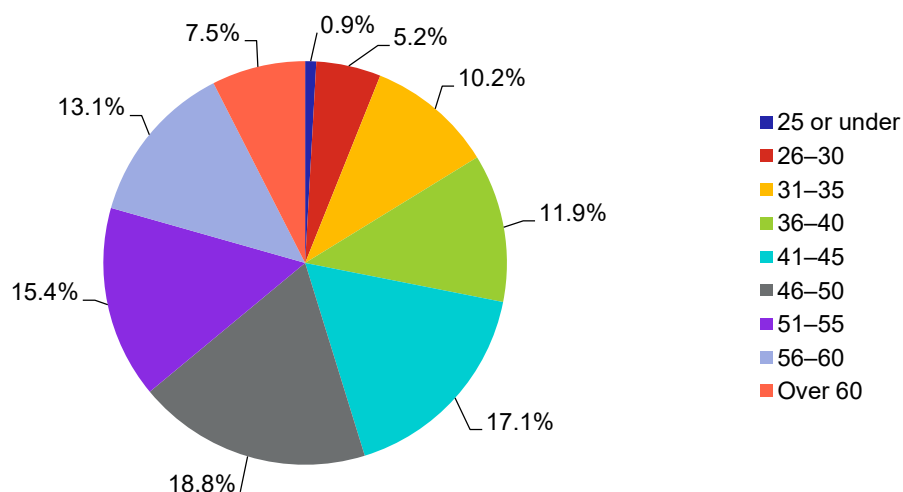
**Education, age and gender structure**

The increasing demands of the work performed by the CNB are reflected in the representation of staff in the various education categories. In 2021, university graduates made up 66.4% of the total CNB workforce. This share has risen by 13 percentage points over the last 10 years.

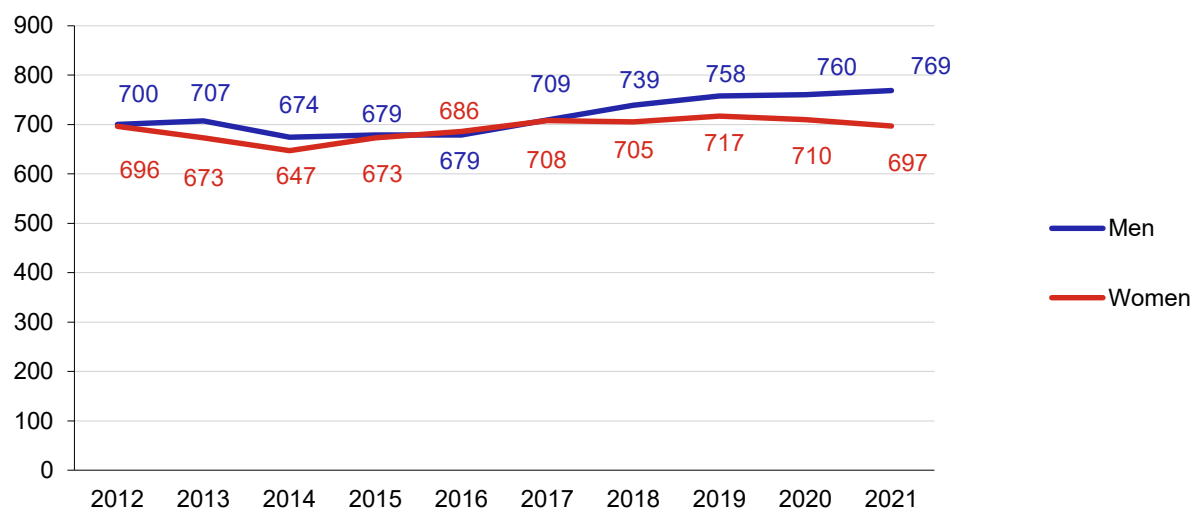
By contrast, the shares of employees with higher vocational training or secondary school education ending with a school leaving exam (including vocational training ending with a school leaving exam) and employees with vocational training without a school leaving exam or with basic education have been steadily decreasing.

**Employee structure by highest level of education attained as of 31 December 2021**

The employee age structure has long been stable. All age groups are represented almost equally. This ensures that work teams have the optimal composition and minimises risks stemming from generational turnover. The extreme age categories (30 years or under, and over 60 years) are the exception to this rule.

**Age structure of employees as of 31 December 2021**

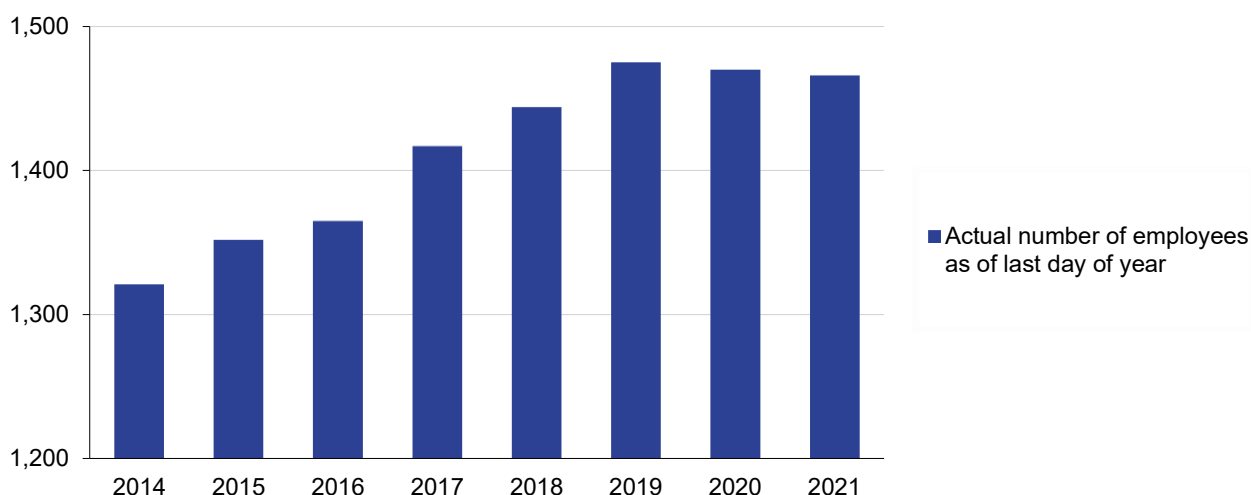
The representation of men and women at the CNB is also almost balanced.

**Numbers of men and women employed at the CNB**

The CNB had 1,466 employees as of 31 December 2021, four less than at the end of 2020. The overall staff turnover rate in 2021 was 5.7%, up by just 0.7 percentage point compared with 2020. The average length of employment at the CNB decreased slightly year on year to 12.8 years.



### Number of employees



### Staff training

In 2021, the professional development of employees took a hybrid form: a combination of in-person and online training, which the CNB switched between seamlessly depending on the epidemiological situation. This made it possible to provide employees with continuous access to training and professional development based on their needs and preferences.

Professional training, which is crucial for maintaining and increasing staff proficiency and competence, accounted for almost 75% of the total number of training events. The vast majority of the training took place online, due mainly to international training events organised remotely in 2021. Feedback from participants showed that the transfer of training courses online had no major negative impact on their quality.

International training courses accounted for 45% of the total number of training seminars. These events gave CNB experts a unique opportunity to share experience and knowledge with colleagues from central banks in other EU states. The transfer of international training courses online and the addition of new types of training events enabled CNB experts to attend a wide range of training courses organised by the European System of Central Banks (ESCB) and by international institutions such as the International Monetary Fund, the Joint Vienna Institute and the Financial Stability Institute. Online seminars and workshops held by the CNB were also an integral part of international training.

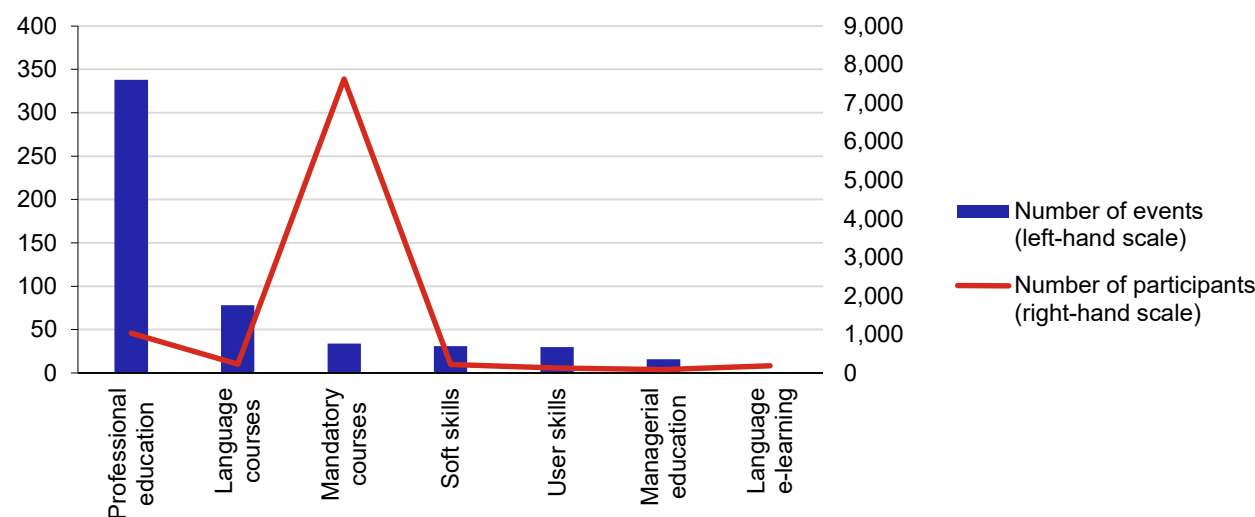
In the area of soft and user skills, the CNB paid particular attention to upskilling employees in the effective and safe use of remote work tools. Management training was directed at promoting teamwork and developing key competences. In a pilot project, employees tried out online self-study in the form of video lectures on various areas of soft skills, personal development, leadership and use of digital technology. The online user skills training courses were assessed broadly positively, while the feedback from soft skills training participants revealed that the in-person approach is preferred for this type of training.

The introduction of the hybrid model made it possible to maintain the language training of CNB staff to the full. Tuition switched flexibly between in-person and online based on the current anti-epidemic measures in force. Employees also received compulsory training in the same way. All mandatory training courses which do not include a practical exam were held online. Compulsory training sessions for new employees, where face-to-face learning is the preferred form, were only held online if the epidemiological situation made this necessary.

The total direct costs of CNB staff training (tuition fees excluding transport and accommodation costs) amounted to CZK 5.6 million in 2021.



Overview of CNB staff training in 2021







#### **IV. PUBLIC RELATIONS**



— KAREL ENGLIŠ

## PUBLISHING ACTIVITIES

Karel Engliš began his publishing career while working at the Provincial Statistical Office in Prague, when he published studies on poverty and national education based on statistical documents. His publishing activities grew when he worked at the Ministry of Trade in Vienna, where he also edited the *Soziale Rundschau* magazine. Later, the main forum where he defended his economic views was the *Lidové noviny* daily newspaper, where he published polemics with well-known Czech politicians.

Engliš's magazine articles, which he also published as a collection, provide an insight into his everyday economic thinking. This was summarised in his economic works – secondary school handbooks and textbooks on the national economy, special prints and scientific papers, the highlight of which is the extensive *System of National Economy*. He complemented his economic theory with efforts to create an order of thought, the postulates of which he formulated in *Small Logic* and later in *Great Logic*.

Karel Engliš's work is completed with memoir essays, which reveal him to be an attentive observer and a witty commentator on events at which he was present.





## IV. PUBLIC RELATIONS

### IV.1 COMMUNICATIONS

Communication with the public was also affected by the continuing coronavirus pandemic in 2021. Even so, this area recorded several important milestones: the CNB's flagship monetary policy publication (the Inflation Report) was turned into the [Monetary Policy Report](#), the graphics of the CNB website were revamped and a new vlog format *Krátce z ČNB* (*Briefly from the CNB*) was introduced.

In compliance with the anti-epidemic measures, press conferences and analytical seminars were held using videoconferencing technology. Likewise, other face-to-face meetings between central bank officials and public or corporate sector representatives (such as discussion panels, round tables and other in-person events) had to be either moved online, postponed or cancelled.

The CNB's key policies – first monetary and later macroprudential – underwent a major reversal after the economy reopened in the second half of the year. The CNB started to return both policies from the accommodative conditions set for the pandemic crisis back to the normal state consistent with a growing economy with inflationary pressures, an overheated labour market and accumulated lockdown savings. These steps – key interest rate hikes of a size and pace unseen since the 1990s and a retightening of the credit ratios used in the assessment of mortgage applications – involved intensive communication with markets and the public in order to explain the CNB's actions adequately.



The growing importance of online communication, social networks in particular, was reflected in the intensity of use of channels such as [Twitter](#), [LinkedIn](#), [Instagram](#), [Facebook](#), [YouTube](#) and [Spotify](#). All these networks saw a sizeable increase in the number of the CNB's posts and followers. The number of interactions between the institution and the public also rose. The CNB used its social media accounts to promote key policy messages and make other important announcements and also to publish its own interviews with experts to explain domestic issues (such as the amendment to the Act on the CNB, the inflation target, consumer protection and money laundering) and international issues (such as central banks' involvement in the fight against climate change and the future of a new type of official currency – central bank digital currency).

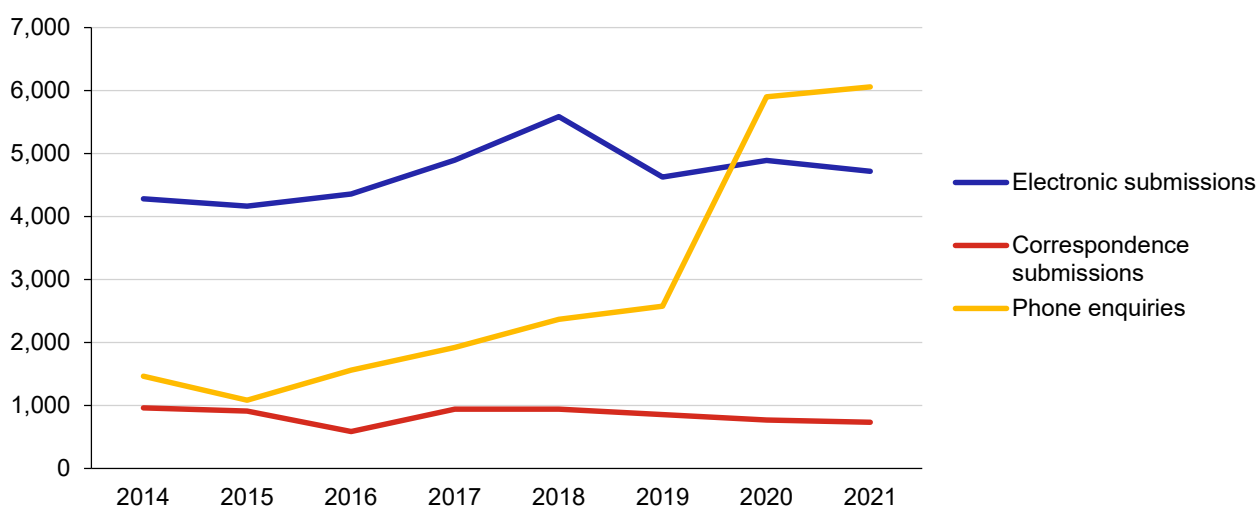
The CNB won a special award in 2021 – [the Zlatý středník \(Golden Semicolon\)](#) in the Public Sector and Political Communication category for its campaign to promote financial and economic literacy.



The CNB has long been an institution that enjoys the confidence of a clear majority of the Czech public. This was re-confirmed by an opinion poll conducted by the STEM agency for the CNB between 22 and 28 November 2021, according to which more than two-thirds of the Czech population trusts the CNB (69%).

The CNB handled a total of 6,061 telephone enquiries in 2021 (compared with 5,902 in 2020 and 2,578 in 2019) as part of its direct communication with the public. The CNB also replied to 4,720 electronic submissions (complaints, suggestions and enquiries) and 733 correspondence submissions.

#### Numbers of submissions and enquiries from the public handled



## IV.2 FINANCIAL AND ECONOMIC LITERACY

It is primarily the job of the state and its education system to make the Czech public financially and economically literate. Nevertheless, the CNB is also engaged in this area, given its role in the economy and the domestic financial system. Its projects are targeted mainly at higher-grade primary school pupils and secondary school pupils, aiming to help them become familiar with finance and economics and so ensure that in the future the public will understand the CNB's actions and be able to identify unfair practices in the financial market.

### For teachers, pupils and students

In 2021, the CNB published a second presentation on *Proč vznikají krize (Why Crises Arise)* on its [web portal](#) for its financial and economic literacy projects. The presentation is a follow-up to the CNB's 2020 teaching material on personal finance. An eight-part educational series *Finanční trampoty Oty Negramoty (Brett the Illiterate's Financial Woes)* addressing various life situations was made in 2021 to complement the presentation and to be included in the package for teachers.

The web portal also includes a link to the [Peníze na útěku \(Money on the Run\)](#) portal, which teaches young Czechs (aged 18–35) how to negotiate the world of finance so that they avoid getting into financial difficulties in unexpected situations. The CNB also uses educational posts on social networks to educate young people.

### For the public and school groups

The CNB also contributes to financial education with its permanent exhibitions in Prague and Brno, where the largest proportion of visitors are secondary school pupils. The CNB's [People and Money exhibitions](#) offer a unique collection of information about the history of central banking and the Czech currency. The Prague exhibition was closed in December 2020 due to the start of construction of the future [CNB Visitor Centre](#) at CNB headquarters. The exhibition thus moved partly [online](#), offering sets of worksheets, quizzes of various difficulty and other activities for pupils and teachers. Since 2021, the online exhibition has also been hosting a virtual exhibition about the prominent Czech banker Jaroslav Preiss.

The Visitor Centre – the CNB's largest financial and economic literacy project to date – will open to the public in May 2022. Besides housing the existing *People and Money* exhibition, it will feature a new permanent interactive *Exploring the Currency* exhibition showcasing the CNB's various roles. Visitors will also be able to choose from a set of supporting programmes in the form of workshops, seminars, short-term exhibitions and the like. Information about central banking will be provided in a fun and educational way, and concepts and topics relating to the central bank's role will be clearly explained.

Learning about the CNB's objectives and the instruments it uses to achieve them will help visitors understand the rudiments of economics.

Alongside its permanent exhibitions in Prague and Brno, the CNB reached out to the general public at external events in 2021. This [outreach programme](#) uses special play tables and accompanying activities to expand both children's and adults' knowledge of the central bank and inform them about the Czech currency.





#### Activities supported by the CNB

The CNB also supports and co-organises partner projects. In 2021, among other things, it supported the fifth edition of the student [Economics Olympics](#). The event, organised by the Institute of Economic Education, was held under the official auspices of CNB Deputy Governor Tomáš Nidetzský. All semi-finalists who progressed from the school-level to the regional rounds could also compete for the [CNB Award](#). The semi-finalists gave presentations on one of three announced topics relating to the central bank's activities in three-minute videos. The CNB also supported the 13th edition of the competition for secondary school pupils for the best essay on financial literacy. The competition is organised by the School of Business Administration of the Silesian University in Opava in partnership with the CNB and the town of Karviná. The Global Money Week initiative, which is organised nationally by yourchance o.p.s. and the European Financial Planning Association Czech Republic, was also held under the auspices of the CNB, with the Ministry of Finance as national coordinator. The aim of Global Money Week is to cultivate a cross-generational awareness of money, how it is obtained and how to manage it efficiently and effectively.

#### IV.3 PROVISION OF INFORMATION UNDER ACT NO. 106/1999 COLL., ON FREEDOM OF INFORMATION

The CNB provides information pursuant to Act No. 106/1999 Coll., on Freedom of Information, as amended (hereinafter the "Act") by way of disclosure on the internet, primarily at [www.cnb.cz](http://www.cnb.cz), or to applicants on the basis of applications. The following text gives details on applications for information under the Act in 2021.

1. Number of applications for information under the Act: 86
2. Number of decisions refusing an application: 6
3. Number of appeals submitted against decisions: 4
4. Court judgements relating to the CNB in the area of provision of information:

In its judgement Ref. No. 14 A 109/2020-7 of 18 October 2020 on an action against the Decision of the CNB Bank Board of 13 August 2020, the Municipal Court in Prague ruled that the Decision shall be repealed and



the matter returned to the CNB for further proceedings (the application concerned the provision of the Rules of Procedure of the Bank Board).

5. Costs of the legal proceeding: CZK 0

6. Number of exclusive licences granted, including justification of the need to grant exclusive licences: 0

7. Number of complaints submitted under Article 16a, reasons for their submission and a brief description of the manner in which they were dealt with: 4

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

8. Other information relating to application of the Act:

The number of applications received increased from 49 in 2020 to 86 in 2021. A large proportion of the applications consisted of queries relating to the CNB's supervisory work in all financial market segments and queries about licensing and enforcement activities. Other applications concerned statistics, the central register of accounts, legislation and public tenders.

#### IV.4 SPECIAL LIBRARY

The [CNB Special Library](#) maintains and provides access to more than 90,000 publications and 700 periodicals and a large number of research reports, annual reports and other publications. Its mission is to provide CNB staff and outside specialists with lending, advisory, reference, bibliographic and research services. Its highly specialised collection, built up over many years, and its access to numerous electronic sources allow users to obtain information in the fields of banking and economics, law and computer technology and to some extent in other areas as well.

Visits to the library were limited during the year because of government anti-epidemic measures, but its online services were expanded further.

#### IV.5 ARCHIVE

The [CNB Archive](#) maintains the historical record of the Czech and Czechoslovak financial system. It currently comprises 106 archive collections sourced mostly from leading Czechoslovak financial institutions, especially banks of issue and commercial banks. The archive documents administered by the CNB Archive provide a unique insight not only into the activities of individual financial institutions, but also an economic perspective on the history of the Czech lands and Central Europe in the 19th and 20th centuries. Researchers can view documents that are more than 30 years old.

In 2021, the CNB Archive was involved in preparing several exhibitions that make the archive documents maintained by the Archive accessible to the public. In addition to its own online exhibition, which focused on the prominent Czech banker Jaroslav Preiss, the CNB Archive was involved in the *Prague Modern Architecture* exhibition held at the Prague Castle Riding School in September and October 2021.


#### IV.6 CONGRESS CENTRE

The [CNB Congress Centre](#) is located in the listed building of the former Prague Commodity Exchange. The global pandemic continued to have a fundamental impact on the activities and use of the Congress Centre in 2021. The number of traditionally held conferences, lectures, presentations, seminars, committee meetings, press conferences and training courses was thus again very limited.

The CNB used the forced closure of the CNB Congress Centre to replace obsolete audio equipment in the Large Hall. Not only was the Centre's technical equipment modernised significantly, but the overall level of comfort for those organising and attending professional and social events there was increased further.







*Stunning*

**V.  
FINANCIAL REPORT**

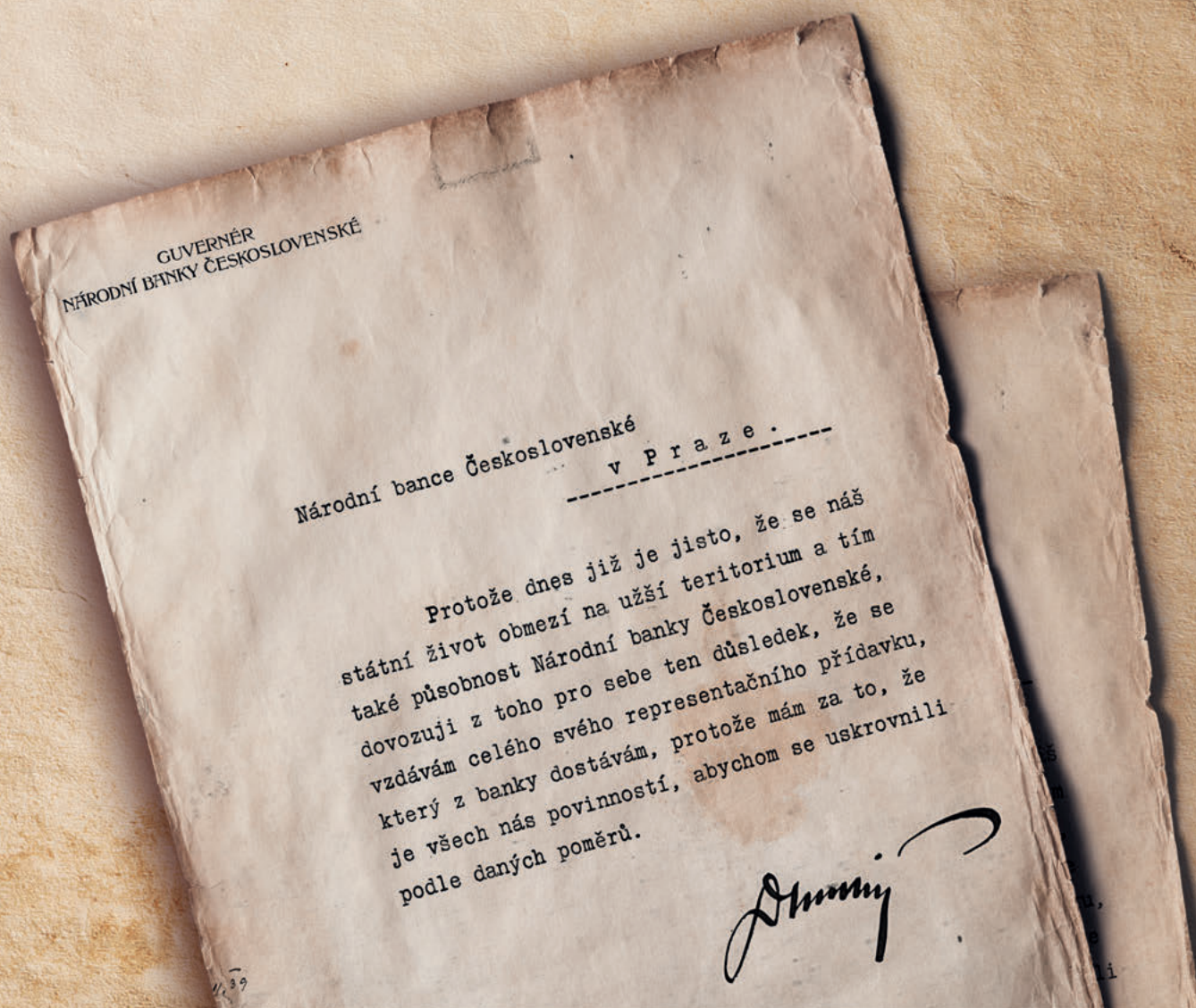


— KAREL ENGLIŠ

# MONETARY POLICY

Although Karel Engliš was able to gain an insight into monetary policy as minister of finance and hence as chairman of the Banking Office of the Ministry of Finance, he – like others in this position – respected the independence of the bank of issue. He thus applied his monetary policy thoughts only after he was appointed head of the National Bank of Czechoslovakia.

The devaluation of the Czechoslovak koruna in 1934 meant a drop of one-sixth in its gold coverage to bring it into line with growth in global gold prices. In Engliš's opinion, this made the Czechoslovak price level consistent with the global level and renewed the competitiveness of Czechoslovak exports. The National Bank then took additional measures. For example, it introduced stock exchange advances against government securities, which made the government bond market more flexible, and worked in cooperation with Československý reeskontní a lombardní ústav to safeguard the liquidity of financial institutions. Engliš also played a vital role in lending to major Czechoslovak export businesses. His work at the bank of issue helped restart and renew the Czechoslovak economy undermined by the Great Depression.



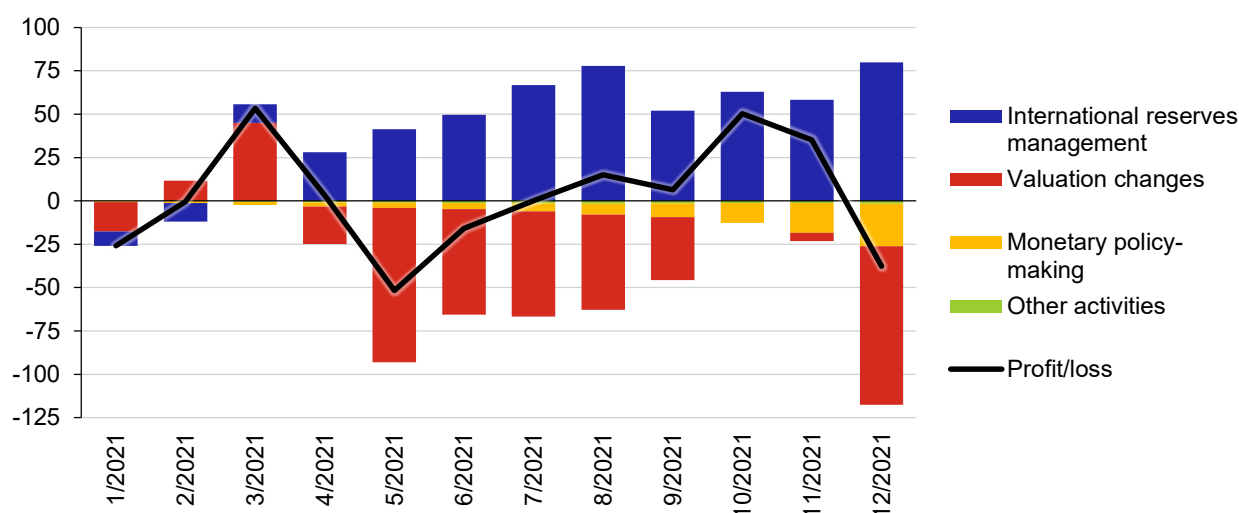


## V. FINANCIAL REPORT

The CNB recorded a loss of CZK 37.7 billion in 2021. This result was affected most of all by exchange rate losses arising from appreciation of the koruna at the close of the year, which reduced the value of foreign currency assets and liabilities. The key factor was the koruna's appreciation against the euro, in which the largest part of the reserves is invested.

### The CNB's income and expenses in 2021

(in CZK millions)



The rise in key interest rates, which made the CNB's monetary operations costlier, also had a negative impact on the financial result. By contrast, favourable trends in foreign stock indices, in which part of the international reserves are deposited, made a positive contribution.

Exchange rate fluctuations due to the pandemic were apparent mainly in the first half of the year. However, they were significantly smaller than in the previous year. The appreciation of the koruna in December fully reflected the tightening of monetary conditions through interest rates, which made koruna assets more attractive as an investment.

### The CNB's income and expenses

(in CZK millions)

	Income and expenses in 2021	Income and expenses in 2020	Y-o-y change
<b>Monetary area</b>	<b>-34,519</b>	<b>94,216</b>	<b>-128,735</b>
Monetary policy-making	-24,403	-22,971	-1,432
International reserves management	79,786	97,523	-17,737
Valuation changes	-91,433	18,222	-109,655
Client operations	1,508	1,437	71
Other operations	23	5	18
<b>Currency issuance</b>	<b>-605</b>	<b>-78</b>	<b>-527</b>
<b>Operations</b>	<b>-2,615</b>	<b>-2,456</b>	<b>-159</b>
<b>Total</b>	<b>-37,739</b>	<b>91,682</b>	<b>-129,421</b>

The long-running lockdowns and the cyclical downturn of the domestic and foreign economies meant that domestic monetary conditions remained accommodative for most of the first half of the year. The key interest rates stayed at the very low levels set the previous year. In response to rising price pressures at home and abroad, monetary policy entered a phase of interest rate increases in mid-2021, made in a total of five steps. The CNB dealt with the growing domestic and foreign inflation pressures by tightening monetary conditions sharply at the year-end (detailed information about interest rates is available in section II.1 *Monetary policy and economic developments*).

The increases in key interest rates are making monetary operations costlier. The CNB's interest expenses for these operations, through which the domestic banking sector deposits excess liquidity with the central bank, totalled CZK 24.4 billion for the year as a whole, i.e. slightly more than a year earlier. The banking sector deposited its excess liquidity predominantly through liquidity-absorbing two-week repo operations. The central bank absorbed excess liquidity of CZK 2,711 billion on average, at a total annual cost of CZK 23.2 billion. The average monthly value of the deposit facility increased to CZK 31 billion, with annual costs of CZK 0.2 billion. The CNB paid a total of CZK 1.0 billion on the minimum reserves of banks, foreign bank branches and credit unions.

The aggregate annual return on the international reserves was CZK 79.8 billion excluding valuation changes. The scope and nature of the resulting contribution of investment instruments was determined by the financial market situation. The most profitable asset class was the equity portfolio, which, together with the dividend component, generated an aggregate annual return of CZK 111 billion. Its level varied over the course of the year depending on the markets on which the international reserves are invested. Expectations of a reopening of economies, combined with still very easy monetary policy and a massive fiscal stimulus in advanced economies, gradually intensified at the start of the year. However, uncertainty regarding the nature of the post-coronavirus inflation gradually mounted. Risk aversion and concerns about accelerating inflation, tapering of monetary stimulus and the threat of an energy crisis prevailed on markets. Despite this, the major stock indices went up at the end of the year. The equity portfolio ended the year with a record-high return, which also reflected the higher percentage share of this asset class.

Unlike in 2020, the bond part of the international reserves generated an aggregate loss of CZK 30 billion. This stemmed from growth in yield curves, as a result of which bond prices fell. The capital losses were partly offset by the interest rate component, which amounted to CZK 11 billion. The performance of money market instruments has long been significantly limited by negative euro market interest rates.

The final financial result was predominantly due to exchange rate developments. The key period in this regard was the end of the year, when the koruna appreciated strongly against all reserve currencies after the sharp increase in key interest rates made investment in koruna assets more attractive at the end of the year. However, the impact of exchange rate volatility varied during the year in line with the reaction of the market to the course of the coronavirus pandemic and its impacts on the economy. The final valuation differences are affected by the currency allocation of the reserves, or rather by contrary movements in the currency pairs represented in the international reserves. The CNB posted a foreign exchange loss of CZK 91 billion at the year-end, due predominantly to unrealised foreign exchange losses on investments denominated in the euro, the Australian dollar and the Swedish krona. The koruna ended the year at weaker levels against the US and Canadian dollars, the Chinese renminbi and sterling than a year earlier. This generated a foreign exchange gain.

Since the end of 2020, valuation differences on foreign currency assets and liabilities have included valuation differences on gold reserves, which the CNB revalues at the current market price. The CNB's overall loss reflected a negative revaluation reserve of CZK 0.2 billion due to price changes.

Client operations closed the year with net income of CZK 1.5 billion. This is in line with previous years. Conversions of foreign currency funds at the instruction of clients, i.e. holders of accounts maintained at the central bank, remain a dominant component. The income depends on the size of the financial transactions.

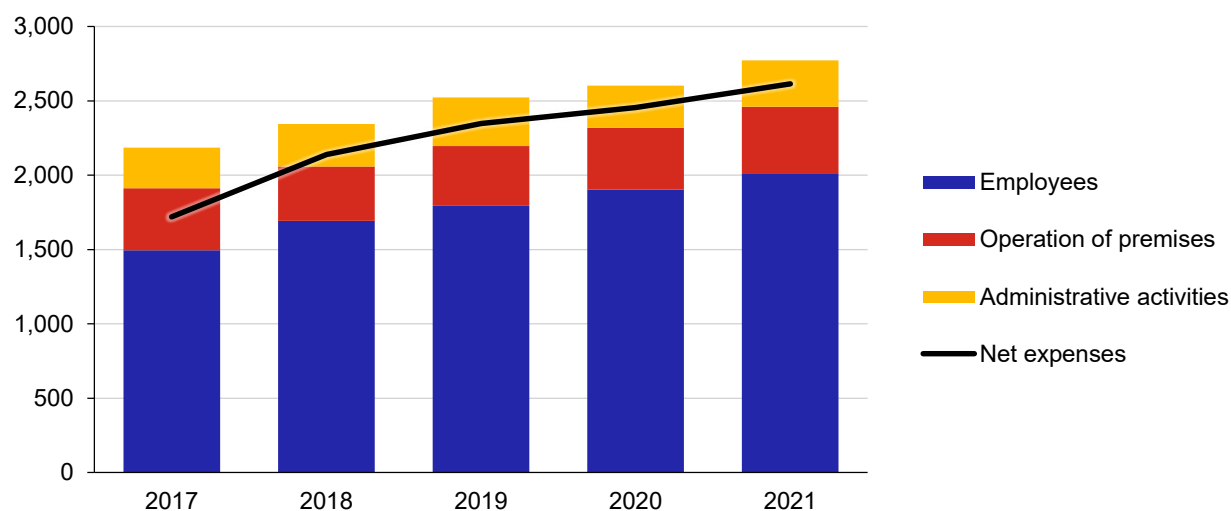
The largest are financial transfers from EU funds and, conversely, the Czech Republic's contributions to the budget of the European Commission.

Each year, the CNB purchases new banknotes and base metal coins from its suppliers. The size of these supplies remained at the previous year's level. However, the costs of precious metal coins increased year on year, as the schedule of issuance included not only the usual denominations, but also unique commemorative silver and gold CZK 10,000 coins. The higher weight of the precious metal used was reflected in the acquisition cost. The year-on-year change was additionally affected by the CNB's switch to market pricing of gold reserve holdings, as a result of which the price of the gold used is higher than the historical price applied in previous years. This was reflected in the income from sales of numismatic material.

The operations area combines human resources expenses and administration expenses, which include, for example, information system support, membership of the European Supervisory Authorities (ESA), information and rating services, canteen food services, and promotion and representation. The operation of premises consists mainly of repairs and maintenance of property and depreciation of premises and information technology. Wage expenses are the largest item, to the extent that they set the trend in total operating expenses.

#### The CNB's operating expenses in 2017–2021

(in CZK millions)



The CNB paid CZK 2.0 billion in wages, mandatory social and health insurance and other contributions, employee benefits and CNB staff training. This accounts for 73% of all its operating costs. Staff costs rose by 5.8% year on year. The basic principles and obligations are based on the Collective Agreement for 2021–2023. It aims mainly to stabilise human resources, support staff motivation and make the central bank a more attractive employer. The range of employee benefits agreed is stable. The CNB provides contributions to life insurance, capital retirement and pension insurance and supplementary pension savings, health care, canteen food services and the sports and recreation of its employees. Employee benefits totalled CZK 130 million for the year as a whole.

Operating costs also increased due to financial contributions to the European Supervisory Authorities. These costs are mandatory and their amount corresponds to the Czech Republic's share in the financial coverage of the operations of these international organisations. The year-on-year rise in asset depreciation reflects increased investment activity in recent years, in which the CNB has replaced part of the technological equipment in its buildings, completed the replacement of banknote processing machines and been renovating the bank hall at CNB headquarters, which will house the new Visitor Centre. The depreciation also reflects a relatively high level of investment in information technology.

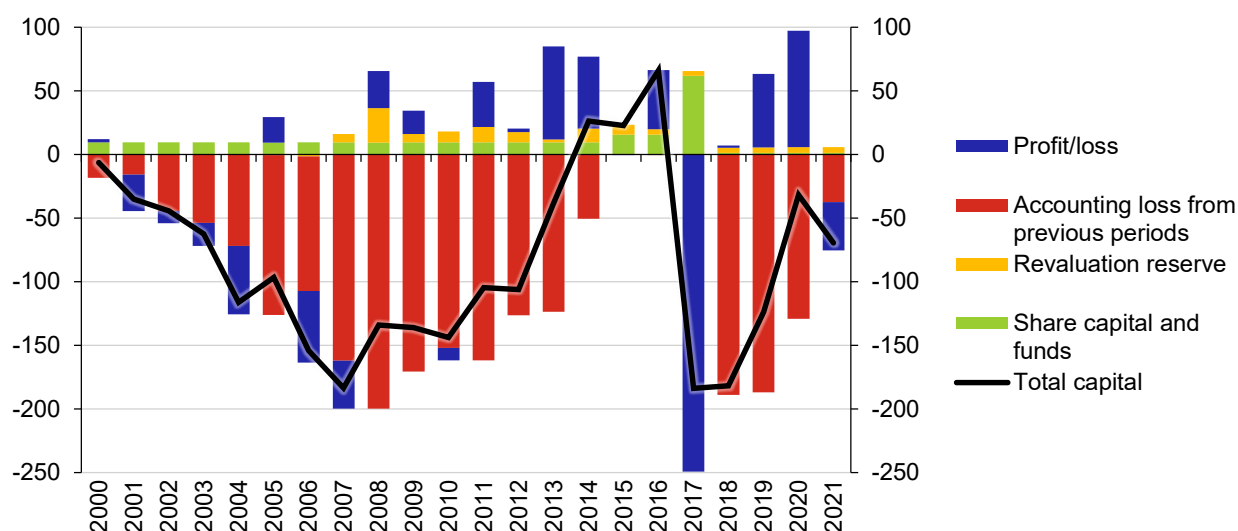


The anti-epidemic measures, which increased the level of telework, especially at the start of the year, continued to have a downward effect on operating costs. Communication with foreign partners was mostly done remotely, so travel expenses remained very low.

The CNB has been recording negative equity since 2017 due to its accumulated accounting loss of previous years. The year-end loss increased the accumulated accounting loss and hence also the negative level of equity.

### The CNB's capital

(in CZK billions)



The CNB entered 2021 with negative equity of CZK 31.8 billion. Owing to this relatively low level and the evolution of the profit/loss in the course of the year, equity switched repeatedly between positive and negative values. However, the final year-end figure was negative (CZK 69.4 billion). This was due to accumulated losses (CZK 37.5 billion) and the 2021 loss (CZK 37.7 billion), amid a positive revaluation reserve arising from equity and member shares in international institutions (CZK 4.5 billion) and a positive statutory fund (CZK 1.4 billion).

The absence of financial provisions made it impossible to cover the accounting loss for the calendar year immediately. It therefore remained in the balance sheet and increased the accumulated accounting loss to CZK 75.3 billion. The CNB will therefore continue to have negative capital. Previous experience shows that this will not prevent the central bank from fulfilling its statutory mandate to maintain price stability or from performing its other duties. The CNB will use future profits preferentially to cover the accumulated accounting losses. In the event of their full repayment, the reserve fund, which stood at zero at the end of 2021, will be supplemented preferentially. However, maximising profit is not the central bank's primary objective.

More comprehensive [information about the CNB's performance](#) in 2021 is available on the CNB website.





**VI.  
FINANCIAL STATEMENTS AND AUDITOR'S REPORT  
AS OF 31 DECEMBER 2021**



— KAREL ENGLIŠ

# IMAGE PAST AND PRESENT

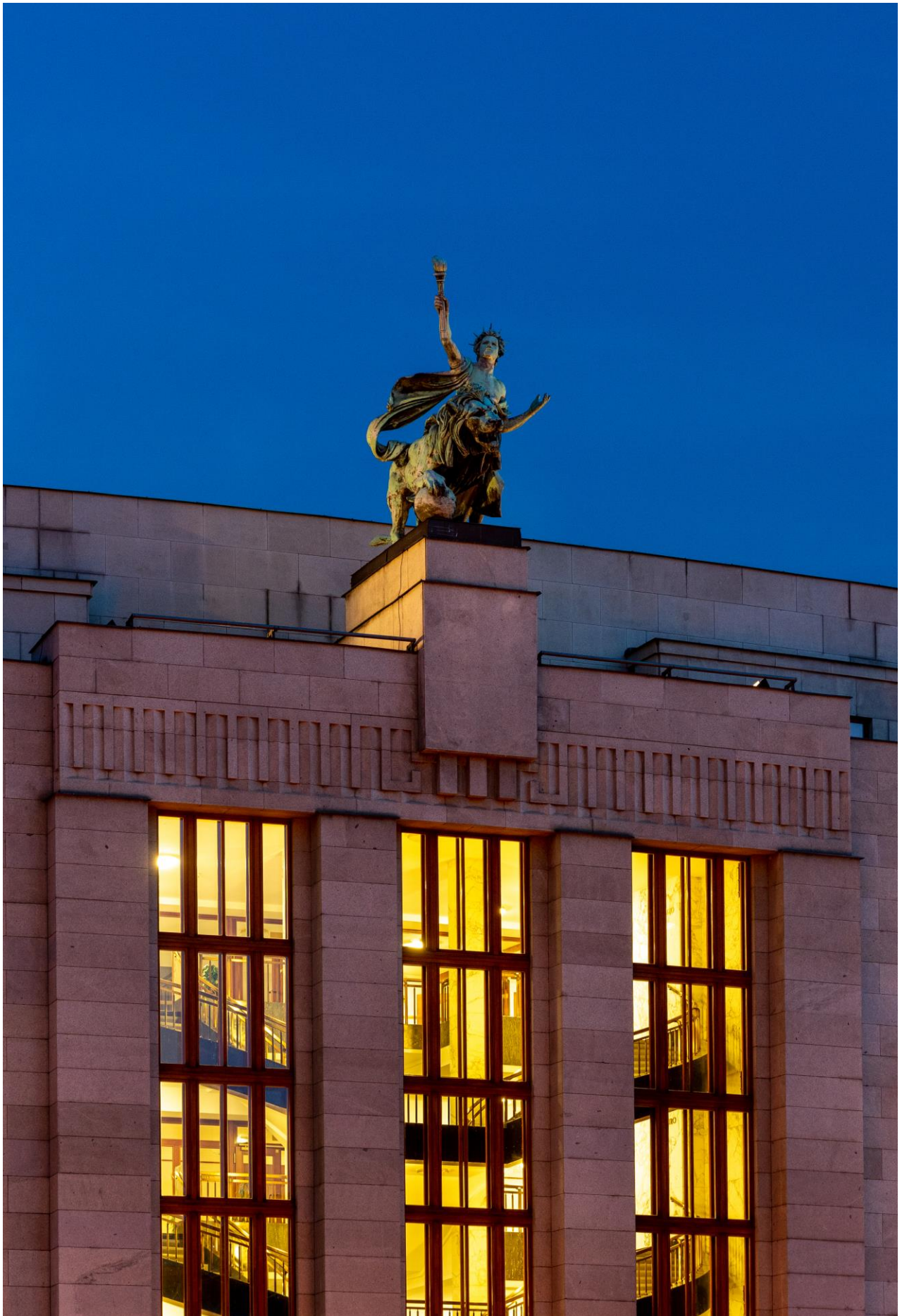
Few economic theoreticians have had the opportunity to implement their ideas and test them in practice. Karel Engliš was one of them. His thoughts as minister of finance and governor of the bank of issue were always marked by an effort to create and maintain a stable economic environment, through fiscal policy in the former case and monetary policy in the latter.

In his economic work, he defined the basic contours of two economic systems –individualistic and solidaristic, the interpenetration of which he was aware of. However, regardless of political regime or sentiment in society, he always defended the principles of market economics. As a result, the communist regime tried to erase him from the collective memory. His importance and ideas started to resonate again after democracy was restored in 1989.

The Czech National Bank remembered the second governor of the National Bank of Czechoslovakia as part of the celebrations of the 100th anniversary of the Czech and Slovak koruna in 2019, when his portrait featured on the CZK 20 coin. A commemorative banknote highlighting his importance for Czech and global economic thinking was issued in his honour in 2022.










FINANCIAL STATEMENTS OF  
THE CZECH NATIONAL BANK  
FOR THE YEAR ENDED  
31 DECEMBER 2021

The financial statements were approved by the Bank Board on 23 March 2022.

Signature of the Governor	Person responsible for accounting Name and signature	Person responsible for financial statements Name and signature
		
Ing. J. Rusnok	Ing. M. Mayer, LL.M.	Ing. D. Šafránek, MBA

ASSETS		Note	2021 CZK million	2020 CZK million
1.	Gold	3.1.	13,483	12,247
2.	Receivables from the International Monetary Fund	3.2.	144,298	81,402
3.	Receivables from abroad including securities	3.3.	3,705,615	3,515,404
3.1.	Deposits at foreign banks and financial institutions		1,247,231	1,125,656
3.2.	Securities		2,446,375	2,342,561
3.3.	Other receivables from abroad		12,009	47,187
4.	Receivables from domestic banks	3.4.	0	0
5.	Tangible and intangible fixed assets	3.5.	3,370	3,341
5.1.	Tangible fixed assets		3,190	3,165
5.2.	Intangible assets		180	176
6.	Other assets	3.6.	6,995	7,474
6.1.	Other financial assets		5,128	4,920
6.2.	Other		1,867	2,554
TOTAL ASSETS			3,873,761	3,619,868

LIABILITIES		Note	2021 CZK million	2020 CZK million
1.	Notes and coins in circulation	3.7.	731,098	711,886
2.	Liabilities to the International Monetary Fund	3.2.	137,353	75,088
3.	Liabilities abroad	3.8.	194,643	143,839
3.1.	Loans received from abroad		134,897	9,280
3.2.	Other liabilities abroad		59,746	134,559
4.	Liabilities to domestic banks	3.9.	2,326,085	2,283,220
4.1.	Loans received		2,132,933	2,147,836
4.2.	Bank monetary reserves		105,752	72,464
4.3.	Other liabilities to banks		87,400	62,920
5.	Liabilities to the state and other public institutions	3.10.	540,217	422,749
6.	Other liabilities	3.11.	13,743	14,932
7.	Provisions	3.12.	0	0
8.	Revaluation reserve	3.13.	4,497	4,289
9.	Share capital	3.13.	1,400	1,400
10.	Funds	3.13.	0	0
11.	Accumulated loss brought forward	3.13.	-37,536	-129,217
12.	Profit or loss for the year	3.13.	-37,739	91,682
TOTAL LIABILITIES			3,873,761	3,619,868

OFF BALANCE SHEET		Note	2021 CZK million	2020 CZK million
1.	Guarantees issued	3.17.	804	804
2.	Issued loan commitments	3.2.	16,060	0
3.	Receivables from spot and term transactions	3.17.	402,985	529,014
4.	Liabilities from spot and term transactions	3.17.	403,737	530,180
5.	Guarantees received	3.17.	0	0
6.	Collateral received	3.17.	60,677	75,622



INCOME STATEMENT		Note	2021 CZK million	2020 CZK million
<b>1.</b>	<b>Interest income and similar income</b>	3.14.	<b>15,525</b>	<b>19,435</b>
1.1.	Interest from fixed income securities		15,111	18,774
1.2.	Other		414	661
<b>2.</b>	<b>Interest expense and similar expense</b>	3.14.	<b>-33,992</b>	<b>-32,658</b>
<b>3.</b>	<b>Income from shares and interests</b>		<b>11,414</b>	<b>8,205</b>
<b>4.</b>	<b>Fee and commission income</b>		<b>654</b>	<b>546</b>
<b>5.</b>	<b>Fee and commission expenses</b>		<b>-262</b>	<b>-210</b>
<b>6.</b>	<b>Gains less losses from financial transactions</b>	3.15.	<b>-27,876</b>	<b>98,896</b>
6.1.	Net foreign exchange gains/losses and foreign exchange spread		-90,336	19,281
6.2.	Other		62,460	79,615
<b>7.</b>	<b>Other operating income</b>		<b>973</b>	<b>578</b>
7.1.	Income from money issue		802	417
7.2.	Other		171	161
<b>8.</b>	<b>Other operating expenses</b>		<b>-1,498</b>	<b>-578</b>
8.1.	Expenses for production of notes and coins		-1,420	-507
8.2.	Other		-78	-71
<b>9.</b>	<b>Administrative expenses</b>	3.16.	<b>-2,382</b>	<b>-2,240</b>
9.1.	Personnel expenses		-2,013	-1,903
9.1.1.	Wages and salaries		-1,409	-1,325
9.1.2.	Social security and health insurance		-468	-443
9.1.3.	Training and employee benefits		-136	-135
9.2.	Other administration expenses		-369	-337
<b>10.</b>	<b>Depreciation and amortization of fixed assets</b>	3.5.	<b>-311</b>	<b>-292</b>
<b>11.</b>	<b>Reversal of provisions for receivables and guarantees</b>	3.12.	<b>18</b>	<b>0</b>
<b>12.</b>	<b>Write offs, additions and utilization of provisions for receivables and guarantees</b>	3.12.	<b>-2</b>	<b>0</b>
<b>13.</b>	<b>Profit or loss for the year</b>		<b>-37,739</b>	<b>91,682</b>

## 1. GENERAL INFORMATION

The Czech National Bank (“the Bank” or “the CNB”) is the central bank of the Czech Republic (“the CR”), and an authority exercising supervision over the financial market and tasked with resolving financial market crises. The Bank was established by the Constitution of the Czech Republic on 1 January 1993 following the dissolution of the State Bank of Czechoslovakia to form the Czech National Bank and the National Bank of Slovakia. The Bank conducts its activities in line with Act No. 6/1993 Coll., on the Czech National Bank, as amended (“the CNB Act”) and other legal regulations. Its registered office is at Na Příkopě 28, Prague 1, Czech Republic, and its identification number is 48136450. The Bank has seven regional offices: in Prague, Ústí nad Labem, Plzeň, České Budějovice, Hradec Králové, Brno and Ostrava.

The primary objective of the Bank is to maintain price stability. In addition, the Bank ensures the financial stability and safe functioning of the financial system in the CR. Without prejudice to its primary objective, the Bank also aims to support the general economic policies of the Government which lead to sustainable economic growth as well as the general economic policies of the European Union in line with the objectives of the European Union. The Bank acts in accordance with the principle of an open market economy.

The Bank sets the monetary policy, issues bank notes and coins, manages the circulation of currency and inter-bank clearing and the settlement system of banks and foreign bank branches. It supervises the institutions operating on the financial market (banks, credit unions, securities traders, issuers of securities, collective investment undertakings, insurance companies, pension funds, consumer loan providers) and supervises a specific area of client protection with entities operating on the financial market which are subject to the CNB’s supervision pursuant to other legal regulations. As a central bank, it provides banking services to the state and the public sector and maintains the accounts of organizations and entities connected to the state budget. Based on an agreement with the Ministry of Finance of the Czech Republic (the “MF”) and in accordance with budgetary rules, the Bank performs transactions related to the issuing of government bonds and to financial market investments. In addition, it handles foreign currency reserves and performs other activities as defined by the CNB Act and by other legislation.

When pursuing its objectives, the Bank cooperates with the central banks of other countries, the authorities supervising the banks and financial markets of other countries, and with international financial institutions and international authorities involved in the supervision of the financial market and negotiates relevant agreements.

The Bank is a part of the European Central Banks System and contributes to the achievement of its objectives and tasks. It is also a part of the European System of Financial

Supervision and cooperates with the European Systemic Risk Board and with European supervisory authorities.

When carrying out its business, the Bank is independent of any instructions given by the President of the CR, the Czech Parliament, the Czech Government, administrative authorities, European Union authorities, Governments of other European Union member states or other authorities. Disclosure obligations of the Bank to the Chamber of Deputies of the Czech Parliament, Senate, Government and the public are defined by law. The Bank and the Government communicate with each other about the principles and measures of monetary, macroprudential and general economic policy.

The Bank uses its income to cover the necessary costs of its operations. The generated profit is allocated to its reserve fund and to other funds created from this profit, and for other uses within the Bank’s budget. Any remaining profit is transferred by the CNB to the state budget. The CNB submits a Financial Report on its operations to the Chamber of Deputies of the Czech Parliament within three months of the calendar year-end.

The supreme management body of the Bank is the Bank Board of the CNB. The members include the Governor of the Bank, two Vice-Governors of the Bank, and four other Bank Board members. The members of the Bank Board are appointed and recalled by the President of the CR. The members of the Bank Board are appointed for a period of six years for a maximum of two terms of office. The Bank Board, among others, sets monetary and macroprudential policies, including instruments for their implementation, and decides about measures concerning the supervision of financial markets.

As at 31 December 2021, the members of the Bank Board and their office termination dates were as follows:

**Ing. Jiří Rusnok**

- Governor, until 30 June 2022

**Ing. Marek Mora M.E.**

- Vice-Governor, until 12 February 2023

**Ing. Tomáš Nidetzky**

- Vice-Governor, until 30 June 2022

**Ing. Vojtěch Benda**

- Member of the Bank Board, until 30 June 2022

**prof. Ing. Oldřich Dědek, CSc.**

- Member of the Bank Board, until 12 February 2023

**doc. Mgr. Tomáš Holub, Ph.D.**

- Member of the Bank Board, until 30 November 2024

**Ing. Aleš Michl, Ph.D.**

- Member of the Bank Board, until 30 November 2024

The statutory representative of the Bank is the Governor. A Vice-Governor is appointed by the Governor to represent him in full extent.

## 2. ACCOUNTING POLICIES

### 2.1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the Act on Accounting, Decree No. 501/2002 Coll. issued by the Ministry of Finance of the CR and Czech Accounting Standards for financial institutions and for financial instruments in compliance with the Decree also with the International Financial Reporting Standards (IFRS). The financial statements of the CNB are prepared to give a true and fair view of its financial position, financial transactions and the results of its operations. The arrangement, definition of content and scope of items for disclosure in the notes to the financial statements were adopted in accordance with the rules set by the European Central Bank for accounting and financial reporting in the European System of Central Banks. Therefore the notes to the financial statements do not contain all information required in compliance with IFRS that are designed primarily for commercial entities.

The financial statements are prepared in compliance with the going concern assumption and the historical cost convention as modified by the revaluation of derivatives, shares, gold and other securities to fair values.

The financial statements comprise a balance sheet, income statement and accompanying notes.

The financial statements are presented in millions of Czech Crowns ("CZK million") unless stated otherwise. As they have been rounded off, the total sums presented in the tables (totals and sub-totals) may not correspond to the sum of the partial amounts.

#### *Explanation Added for Translation into English*

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

### 2.2. FOREIGN CURRENCIES AND SPECIAL DRAWING RIGHTS

Transactions in foreign currencies are translated into CZK at the foreign exchange rate effective at the transaction date. Assets and liabilities denominated in foreign currencies are translated to CZK at the exchange rate effective at the balance sheet date.

Exchange rates	Quantity	31 Dec 2021	31 Dec 2020
EUR	1	24.860	26.245
USD	1	21.951	21.387
JPY	100	19.069	20.747
GBP	1	29.585	29.190
CHF	1	24.066	24.298
CAD	1	17.275	16.789
AUD	1	15.919	16.512
SEK	1	2.425	2.614
SDR	1	30.723	30.803
CNY	1	3.458	3.273
DKK	1	3.343	3.527
NOK	1	2.488	2.507
PLN	1	5.408	5.755
XAG	1	16.138	18.058
XAU	1	1,274.157	1,291.864
XPT	1	683.559	732.533

All resulting realized and unrealized foreign exchange gains and losses are recognized in the income statement in the gains less losses from financial operations, except for foreign exchange gains and losses from capital instruments in portfolios measured through equity which are recognized in equity (refer to Note 2.4.).

As foreign exchange gains and losses are one of the most significant income statement items for CNB and as exchange rate risk is specified for a central bank it is monitored and treated separately of other financial risks. In accordance with Section 19 IAS 1, exchange differences are always accounted for separately from other valuation differences, even in the case of financial instruments measured at fair value through profit or loss.

### 2.3. GOLD AND OTHER PRECIOUS METALS

For accounting and revaluation purposes, the Bank divides its precious metal inventory into four groups:

- **a) Long-term reserve** – gold placed abroad (marketable bars) and precious metals held at the Bank in the long term (bars, coins, medals).
- **b) Operating reserve** – precious metals held for the production of coins (bars, semi-finished products for the production of coins – “blanks”, demonetized coins etc.). Precious metals are either purchased for the reserve or transferred to it from the long-term reserve or from the cash reserve.
- **c) Collections reserve** – collections of coins, medals, counterfeits, legal tender specimens etc.
- **d) Cash reserve** – valid coins made of precious metals. They are not recorded as gold and other precious metals on the face of the balance sheet – they are recorded off balance sheet as valid currency in circulation in their nominal value.



Gold in groups a), b) and c) is considered to be currency and is remeasured at fair value through profit/loss. Reserves in groups a) and b) are recognized in item Gold (see also Note 3.1.) and reserve in group c) is recognized within Tangible fixed assets (see also Note 3.5.).

## 2.4. SECURITIES

CNB has currently no regime in place for the purchase of domestic securities. Foreign debt securities and shares held as part of the foreign currency reserves are reported as part of receivables from abroad. These include securities traded on the money and capital markets. Most of debt securities are managed by the banking transactions section. The MBS (US "Mortgage Backed Securities") portfolio is managed by external managers. The shares are also managed predominantly by external managers within the passive investment strategy consisting of maximum achievable replication of selected share indexes of advanced economies.

The Bank reports shares and interests representing participation in international institutions, and other shares and interests held in the long term, in other financial assets. The Bank holds no equity investments in subsidiaries or associates.

The Bank classifies all debt securities held in its portfolio as measured at fair value through profit or loss for the following reasons:

- portfolio management and evaluation is performed on the basis of the fair value of the instruments; the aim is to maximize returns while maintaining established risk and liquidity management rules,
- portfolio duration is operatively managed through derivatives (swaps and futures), which are continuously remeasured at fair value through profit or loss,
- inclusion of all income and expenses from foreign exchange reserves in the income statement is the most transparent way of their reporting to financial statements readers.

The Bank also included the shares managed by external managers in the measured at fair value through profit or loss category. The Bank accounts for all externally managed portfolios on an aggregate basis based on information from securities account administrator or external managers.

Securities (excluding shares and interests in international institutions) are in most instances measured at prices directly from individual securities markets (IFRS classification: level 1) Prices are obtained from the following sources:

- for bonds, the bid price by Bloomberg,
- for MBS, price given by Intercontinental Exchange (ICE),
- for shares, the closing price from the stock exchange on which the respective shares are traded.

In rare instances where the price supplier fails to obtain sufficient information from liquid markets, prices are calculated using models based on market data (level 2). Systematic exceptions are Commercial papers (Bloomberg does not list these securities) and US bonds issued outside the USA (prices calculated using a model based on historical experience better match the prices at which the securities are sold). These bonds are measured using the present value of future cash flows using exclusively observable market indicators (IFRS classification: level 2). The market interest rate shall be:

- for Commercial papers, the interest rate achieved by the same issuers on the primary securities market,
- for USD bonds issued by entities located outside the US, the interest rate on US government bonds increased by:
  - the difference between the yield on government bonds and the yield on the valued bond on a daily basis,
  - difference between Bloomberg's bid and ask yields.

Shares and interests representing participation in international institutions have been classified as securities measured at fair value through equity. The shares in the Bank for International Settlements ("BIS"), the share in Society for Worldwide Interbank Financial Telecommunication ("SWIFT") and in the European Central Bank ("ECB") are non-marketable and their holding results from the membership of the CNB in these institutions. The best possible estimate of fair value of shares in ECB and SWIFT is the acquisition cost (level 3 valuation classification) (see also Note 3.6.). The share in BIS is measured as a share of the CNB in the paid-up part of net assets (or capital) of the BIS decreased by 30% which corresponds to the method used by the BIS to determine the value of shares. This is public information and therefore the classification of measurement is set as level 2.

Securities and interests are initially recognized at cost which includes direct transaction costs. In respect of bonds, receivables/payables arising from the security are reported off balance sheet as at the spot trade date of the purchase/sale of the security until the date of settlement and subsequently revalued due to movements in market prices. Gains and losses from the revaluation of unsettled transactions are recognized in income statement line item 6.2. The moment the transaction is realized, the security is derecognized off balance sheet and is accounted for through on-balance sheet securities. The price of the bond is gradually increased (or decreased) using the effective interest rate method to include interest income (interest expense). In respect of floating interest rate securities, interest income from coupons is calculated using the straight-line method. In respect of inflation linked bonds, interest income changes depending on changes in inflation coefficients. Interest from bonds is reported in income statement line item 1.1. Gains and losses realized upon the

sale of the security are recognized as the difference between the selling price and the current value of the security in the accounting books as at the sale date. Gains and losses from sales are recognized in income statement line item 6.2.

Gains and losses arising from changes in the fair value of securities measured at fair value through profit or loss are reported in income statement line item 6.2. Gains and losses arising from changes in the fair value of shares representing the participations are recognized directly in equity.

Dividends on shares measured through equity and dividends on shares measured at fair value through profit or loss are recognized in income statement line item 3.

## 2.5. REPO TRANSACTIONS AND SECURITIES LENDING

Securities borrowed or purchased under the purchase and resell agreements are not recognized on the balance sheet. Securities lent or sold under those agreements are retained in their original portfolio in the balance sheet. The underlying cash flows are recorded as received or provided loans and borrowings, respectively, on a settlement date basis. The value of securities received under reverse repo transactions or under securities lending contracts is reported off balance sheet in collateral received.

Foreign securities deposited with foreign depositories may be used pursuant to an agreement in a lending scheme ("securities lending") operated by a depository performing the role of an agent or a direct borrower.

As part of the agent-type lending scheme, securities are lent to third parties and the Bank receives other securities as collateral in exchange. Received collateral is recorded off balance sheet, securities at fair value remain in the balance sheet.

As for the automatic lending scheme, the Bank does not receive collateral, but the depository guarantees that the lent securities are returned or reimbursed for in cash.

With both of the lending schemes, securities continue to be carried on the Bank's balance sheet at the original carrying amount; income from these operations is recognized in income statement line item 4.

## 2.6. NOTES AND COINS IN CIRCULATION

Notes and coins in circulation represent the liability of the Bank from the issue of currency. The expenses for the production of notes and coins are expensed as incurred.

## 2.7. RECEIVABLES FROM AND LIABILITIES TO THE INTERNATIONAL MONETARY FUND

Receivables from the International Monetary Fund (IMF) result from the membership of the Czech Republic in this organization. They include membership deposit, reserve position, bank funds in SDR, an interest-free loan provided within the IMF programme for the support of less developed countries and the credit facility provided to the IMF.

The membership quota at the IMF comprises a membership deposit and reserve position. The membership deposit represents a share of the IMF quota paid in CZK, while the reserve position is a share of the quota paid in foreign currency and forms part of foreign exchange reserves. The quota is denominated in Special Drawing Rights ("SDR") but expressed in the local currency. Translation into Czech Crowns is performed using the exchange rate promulgated by the IMF.

Payables to the IMF include IMF deposits in the CNB, reflecting the sum of CZK held by the IMF, an interest-free bill of exchange (outstanding portion of the deposit in CZK) and SDR allocation.

Receivables from and payables to the IMF are recorded on a gross basis, i.e. receivables and payables do not balance out.

## 2.8. ISSUED SECURITIES

The amount of treasury bills issued by the Bank is presented in the balance sheet after offsetting against treasury bills repurchased by the Bank. The Bank records the whole issued amount of treasury bills and uses the treasury bills only as collateral in repo transactions with domestic banks (refer to Note 3.9.).

## 2.9. DERIVATIVE FINANCIAL INSTRUMENTS

In terms of the types of derivatives, the Bank performs fixed term transactions (forwards, swaps and futures), which it further classifies based on the underlying instruments into interest rate (also including derivatives and bonds), currency and equity derivatives. Derivatives are accounted for off balance sheet as well as on the balance sheet.

Off balance sheet, receivables and payables from these derivatives are recognized from the derivative trade date to the final settlement date in the amount of the underlying asset, either nominal (swaps) or contracted (forwards, futures). The receivables and payables are subsequently remeasured to reflect changes in foreign exchange rates.

On the balance sheet, derivatives are recognized at their fair values, while the fair values of interest rate derivatives and equity derivatives are recognized in the currency of the underlying instrument that is simultaneously revalued to CZK. For currency derivative fair value is monitored and recognized directly in CZK.

Fair values are determined using discounted future cash-flow models (for FX swap and FX forward transactions) using the ruling foreign exchange rates. Interest rate swap transactions are valued using the Bloomberg's standard valuation tool Swap Manager (also using discounted future cash-flow model). Cash flows in forward and outright swap operations are discounted using money market rates. Futures are valued at the closing price of the relevant exchange on the given day. All market prices are calculated using publicly available information from financial markets and, from the point of view of the IFRS classification, these are level 2 prices. Fair values of derivatives are presented in other assets or in other liabilities when they are positive or negative, respectively. Changes in the fair value of derivatives are included in the income statement line 6.2. Other. The Bank recognizes all derivatives as available-for-sale derivatives and does not use hedge accounting.

## 2.10. INTEREST INCOME AND INTEREST EXPENSE

Interest income and interest expense on all interest-bearing instruments are accrued. Negative interest rates on assets, if any, are recognized as interest expense. Negative interest rates on liabilities are recognized as interest income. For loans, and deposits and available-for-sale coupon bonds with a floating interest rate ("floaters") using the straight-line method, for available-for-sale zero coupon and coupon bonds with a fixed interest rate interest is accrued using the effective interest rate method derived from acquisition cost. Accrued interest is recorded together with the underlying assets and liabilities.

Interest income on non-performing loans is also accrued and included in the related loan balance. Such amounts are considered in estimating the specific provisions for non-performing loans. No interest is paid on receivables in case of a debtor's bankruptcy. Non-interest earning assets, such as long-term receivables, are not discounted.

## 2.11. FEE INCOME

Fee income from the maintenance of current accounts and effected transactions are recognized to clients in accordance with the CNB's Schedule of Charges for Financial and Business Services on an accrual basis, at the end of the month. One-off fees are recognized immediately in the income statement when the service is provided.

## 2.12. PAYABLES TO AND RECEIVABLES FROM DOMESTIC BANKS

Monetary reserves of banks, foreign bank branches and savings and credit societies ("domestic banks") include deposits with the CNB relating to mandatory minimum reserves ("MMR") and available reserves (i.e. funds above the determined amount of MMR) on accounts in the CERTIS payment system (payment system account), cash withdrawal and deposit accounts, or in special accounts reserved for the MMR.

The MMR requirement is 2% of payables to non-banking entities arising from received deposits, loans and issued non-trading and other debt securities with maturity up to 2 years. The above deposits bear interest equal to the current CZK two-week repo interest rate up to the pre-specified volume of minimum reserves, while the domestic banks are required to maintain the average MMR balance over the relevant maintenance period rather than on a daily basis. Available reserve bear the interest of 0 %.

Liabilities to domestic banks from repo transactions (loans received) include the banks' surplus liquidity deposited with the CNB through monetary policy repo tenders. The CNB provides CNB treasury bills as collateral in these transactions. The basic duration of these operations is usually 14 days, while repos with shorter/longer maturities are executed from time to time depending on the interbank money market liquidity changes.

Domestic banks also have an option to make overnight deposits of surplus liquidity with the CNB (deposit facility for discount rates) or borrow overnight liquidity from the CNB against collateral (Lombard repo lending facility for Lombard rates).

A list of acceptable financial instruments (collateral) to secure such operations (repo tenders, Lombard repo transactions) is published on the CNB's website.

## 2.13. OTHER RECEIVABLES

Receivables originated by the Bank are stated at nominal value less specific provisions for impairment, if any. Irrecoverable receivables are generally written off upon completion of bankruptcy proceedings against the debtor or on the debtor's liquidation.

## 2.14. LIABILITIES TO THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS

The Bank maintains a system of income and expense accounts and other accounts for the government and its organizational units and other entities pursuant to Section 3(h) of Act No. 218/2000 Coll., on Budgetary Rules. The Bank also provides selected banking services on these accounts. Account balances in CZK and EUR are reflected in the balance of the Single Treasury Account. Accordingly, these liabilities represent funds of the government and other public institutions deposited with the CNB.

## 2.15. PROVISIONS

Provisions are created when the Bank has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Additions to provisions are recognized in the respective income statement caption. Their utilization is recognized together with expenses or losses, for which purpose they



were created in the income statement. Reversal of provisions in case they are no longer necessary is recognized in income. Movements in provision accounts denominated in foreign currencies arising from revaluations to exchange rates prevailing at the balance sheet date are recognized or charged, as appropriate, to exchange rate differences.

## 2.16. SPECIFIC PROVISIONS

Specific provisions are deducted from the nominal value of each receivable originated by the Bank. The amount of specific provisions for classified receivables and assets at risk is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral (see also notes 3.6. and 3.12.).

In addition, in accordance with IFRS 9 the Bank applies a calculation model of financial asset impairment based on expected credit losses based on the historical cumulative probability of the debtor's default. In applying this approach, the Bank performed an analysis of all groups of financial assets. Given that the amount of the required specific provision mentioned above is negligible with respect to the volume of the CNB's assets (CZK 1.55 million and CZK 2.08 million in 2021 and 2020, respectively), it is not recognized.

When a receivable is deemed to be not collectable, it is written off and the related specific provision for impairment is reversed. Subsequent recoveries are credited to the current period income statement if previously written off.

The Bank monitors and regularly reviews the level of the credit risk taken (refer to Note 3.18.).

## 2.17. TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible fixed assets are recorded at cost, which includes value added tax ("VAT") unless the VAT is fully recoverable and are depreciated/amortized by applying the straight-line basis of depreciation over the estimated useful lives.

If usage of intangible fixed assets is limited by contract, the intangible fixed assets are amortized over the contractual period. Low-value tangible assets with a unit cost not exceeding CZK 80,000, as well as low-value intangible assets with a unit cost not exceeding CZK 60,000, are fully depreciated/amortized upon the inception of use. Land, art and art collections are not depreciated.

In the case of a change in the annual depreciation or amortization rate or classification or valuation of the property, the depreciation charge is modified in the month of the change; the depreciation or amortization charged before that date is not adjusted.

### Estimated useful lives of assets in years

Buildings and constructions	20 – 50
Machinery and equipment	
motor vehicles	4 – 5
office equipment and computers	3 – 4
banknote processing systems	10
Furniture and fixtures	5 – 10
Software	4
Long-term software	6
Other intangible fixed assets	6

Repairs and maintenance expenditures are charged to expenses as incurred. Technical improvements exceeding CZK 40,000 for the year are capitalized.

## 2.18. VALUE ADDED TAX

The Bank is registered for VAT. In accordance with the VAT Act, the CNB claims the full amount of input VAT in respect of received taxable supplies used only for taxable supplies liable to VAT, where the input VAT is fully recoverable.

## 2.19. INCOME TAX AND PROFIT TRANSFER TO THE STATE BUDGET

The Bank is exempt from income tax in accordance with Section 17(2) of Act No. 586/92 Coll. on Income Taxes, as amended. As a result, the Bank does not account for current or deferred tax. The Bank uses its income to cover the costs of its operations. The profit is allocated to funds and other usage (e.g. settlement of accumulated losses from previous periods) in the budgeted amount. Any remaining profit is transferred to the state budget.

## 2.20. STAFF COSTS AND EMPLOYEE BENEFITS

Staff costs, including costs of the Bank Board members, are included in administration expenses. The Bank does not administer any transformed pension fund or participation fund as a pension company. However, the Bank provides contributions to its employees for additional pension insurance or supplementary pension insurance administered by pension companies, and also provides contributions for capital pension schemes and life and casualty insurance, language training and also provides contribution in the form of cafeteria system in the spheres of sports, culture, health, traveling and education. Employee benefits are accounted for directly as an expense.

## 2.21. CASH FLOW STATEMENT

In accordance with the Act on Accounting (No. 563/1991 Coll.), the CNB is not obliged to prepare a cash flow statement as part of its financial statements. As the Bank is

the central bank, the presentation of a cash flow statement would not provide further significant information to the users of these financial statements. The cash flow statement is therefore not prepared.

## 2.22. ACCOUNTING TRANSACTION DATE

Accounting transactions are recognized or charged into income for the period to which they relate. Purchases and sales of foreign currencies and securities are accounted for at the trade date off balance sheet; they are recognized on the balance sheet at the settlement date. Credit transactions, including repo transactions, are accounted for at the settlement date.

## 2.23. OTHER OFF BALANCE SHEET ITEMS

In compliance with accounting procedures for banks, the CNB records other off-balance sheet assets and liabilities in an off-balance sheet account. Off-balance-sheet items are carried at face value or estimated value. The carrying amount is used if neither face value nor estimated value can be determined.

In the off-balance sheet the Bank recognizes other assets taken into custody from clients and banks, assets in own custody and other carrying amounts (refer to Note 3.17.).

## 2.24. SUBSEQUENT EVENTS

The effects of events which occur between the balance sheet date and the date of compilation of the financial statements are reflected in the financial statements. This happens in the case that these events provide further evidence of conditions which existed at the balance sheet date.

Where significant events reflecting post balance sheet facts occur subsequent to the balance sheet date but prior to the compilation of the financial statements, the effects of these events are disclosed in the notes to the financial statements, but are not reported in the financial statements (refer also to Note 3.21.).

### 3. ADDITIONAL INFORMATION

#### 3.1. GOLD

	2021	2020
<b>Gold (CZK million)</b>	<b>13,483</b>	<b>12,247</b>
Long-term reserve	12,959	11,195
Operating reserve	524	1,052
<b>Gold (thousand Troy ounces)</b>	<b>340</b>	<b>305</b>
Long-term reserve	327	279
Operating reserve	13	26
<b>Gold (tons)</b>	<b>10.6</b>	<b>9.5</b>
Long-term reserve	10.2	8.7
Operating reserve	0.4	0.8

Revaluation of gold at fair value is recognized in 6.1. Net foreign exchange gains/losses and foreign exchange spread in the accompanying income statement. The Bank records other gold reported separately as Collections reserve (part of other assets) or as Cash reserve (off balance sheet records).

	2021	2020
<b>Collections reserve</b>		
Carrying amount – CZK million	312	316
Troy ounces – thousands	8	8
Tones	0.2	0.2
<b>Cash reserve – carrying amount</b>	<b>12</b>	<b>12</b>

As at 31 December 2021 a foreign bank deposit denominated in gold amounted to CZK 9,494 million (7.4 t) (As at 31 December 2020: CZK 7,888 million (6.1 t)).

#### 3.2. RECEIVABLES FROM AND PAYABLES TO THE INTERNATIONAL MONETARY FUND

CZK million	2021	2020
Membership quota at the IMF	65,866	67,135
Membership deposit	49,183	51,056
Reserve position	16,683	16,079
Loan provided to the IMF	174	174
Deposits in the IMF	78,258	14,093
<b>Receivables from the IMF</b>	<b>144,298</b>	<b>81,402</b>
Payable from the SDR allocation	88,170	24,033
Payable to the IMF from the bill of exchange	43,650	44,737
Current account with the IMF	5,533	6,318
<b>Payables to the IMF</b>	<b>137,353</b>	<b>75,088</b>

An increase in receivables and liabilities in 2021 is attributable to SDR allocation approved by the IMF Board of Governors on 2 August 2021. The amount allocated to the Czech Republic was CZK 64,431 million.

On 1 January 2021, a new bilateral agreement with the IMF came into force, replacing the agreement in force between 12 September 2018 and 31 December 2020. A new credit

facility of EUR 646 million was determined (EUR 1,500 million in the previous agreement). The new agreement is not secured by a state guarantee. As at 31 December 2021, the unused credit facility amounts to EUR 646 million, i.e. CZK 16,060 million.

#### 3.3. RECEIVABLES FROM ABROAD INCLUDING SECURITIES

This item represents a majority portion of foreign currency reserves are used to conduct the Bank's own independent currency policy and as a source of liquidity for performing transactions of the CNB's clients. More than 94% of foreign reserves are portfolios whose strategic allocation is the result of the CNB's internal decision-making processes and which form the so-called actively managed part of foreign exchange reserves. The rest of the reserves consist of receivables from the International Monetary Fund (IMF) in special drawing rights (SDRs) (see Note 3.2.) and monetary gold held by the CNB (see Note 3.1.). In terms of utilization, the Bank divides foreign currency reserves into a liquidity tranche, which comprised 30.8% of the foreign currency reserves at the end of 2021, and an investment tranche, which comprised 69.2% of the foreign currency reserves.

CZK million	2021	2020
<b>Deposits at foreign banks and financial institutions</b>	<b>1,247,231</b>	<b>1,125,656</b>
Current account balances <sup>1</sup>	1,193,517	1,010,963
Deposits <sup>1</sup>	53,714	114,693
<b>Securities</b>	<b>2,446,375</b>	<b>2,342,561</b>
Zero-coupon bonds <sup>2</sup>	55,717	143,920
State <sup>2</sup>	53,229	113,059
Other <sup>3</sup>	2,488	30,861
Coupon bonds <sup>2</sup>	1,778,247	1,686,566
State <sup>2</sup>	1,352,959	1,250,054
Other <sup>3</sup>	425,288	436,512
MBS <sup>2</sup>	44,006	43,540
Shares <sup>2</sup>	568,405	468,535
MSCI euro (in EUR)	283,596	240,027
of which financial institutions	43,201	35,579
S&P 500 (in USD)	148,548	112,406
of which financial institutions	16,072	11,770
FTSE 100 (in GBP)	25,316	20,446
of which financial institutions	4,513	3,772
Nikkei 225 (in JPY)	26,064	26,603
of which financial institutions	539	527
S&P TSX (in CAD)	56,568	44,088
of which financial institutions	18,671	13,650
S&P ASX 200 (in AUD)	28,313	24,965
of which financial institutions	8,266	6,933
<b>Other receivables from abroad</b>	<b>12,009</b>	<b>47,187</b>
Funds invested through reverse repo transactions <sup>1</sup>	11,602	46,636
Foreign currency <sup>1</sup>	407	551
<b>Receivables from abroad including securities</b>	<b>3,705,615</b>	<b>3,515,404</b>



<sup>1</sup> – Financial instruments classified as measured at acquisition cost or amortized cost.

<sup>2</sup> – Financial instruments classified as measured at fair value and at market prices directly from financial markets (see Note 2.4.)

<sup>3</sup> – Financial instruments classified as measured at fair value and at market prices directly from financial markets (see Note 2.4.) with exceptions valued using models which in 2021 represented Commercial papers at a value of CZK 2,486.99 million and US bonds issued outside the USA at a total value of CZK 55,008.42 million.

Foreign banks are banks with registered offices abroad. Foreign banks do not include branches of foreign banks with the registered office in the Czech Republic.

Other receivables from abroad are particularly represented by reverse repo transactions for which collateral was received in the amount of CZK 11,144 million as at 31 December 2021 (31 December 2020: CZK 46,024 million) (refer to Note 3.18.).

Deposits also include provided collateral in the form of cash placed in foreign banks in the total amount of CZK 3,243 million (31 December 2020: CZK 5,362 million) provided based on the framework agreements on derivatives

transactions (ISDA Master Agreement, ISDA Credit Support Annex and GMRA Master Agreements).

Part of the securities is temporarily transferred to other entities, either as collateral for loans received (repo transactions) or under automated lending schemes.

CZK million	2021	2020
<b>Bonds</b>		
for making repo transaction	134,356	9,279
for making derivative transactions entered into with the counterparty	535	530
Automated lending scheme	418,249	612,963
<b>Shares</b>		
Lending scheme	34,763	15,214

### 3.4. RECEIVABLES FROM DOMESTIC BANKS

During the year, the CNB concludes reverse repo transactions with domestic banks in the form of:

- Provided loans – as at 31 December 2021 and 2020, no transactions were concluded; and
- Securities (collateral switch) – as at 31 December 2021 and 2020, no transactions were concluded.

### 3.5. TANGIBLE AND INTANGIBLE FIXED ASSETS

The Bank did not provide any tangible or intangible fixed assets as collateral and does not hold any fixed assets under finance lease contracts. Other tangible assets include the collection of coins and medals made of precious metals in the amount of CZK 312 million as at 31 December 2021 (31 December 2020: CZK 316 million) for which the value of precious metals is remeasured at fair value through profit or loss.

CZK million	Land	Buildings	Machinery, furniture and fittings and other tangible assets	Acquisition of assets and prepayments made	Total
Acquisition cost as at 31 December 2020	164	6,968	3,036	63	10,231
Accumulated depreciation at 31 December 2020	0	4,543	2,523	0	7,066
<b>Net book value at 31 December 2020</b>	<b>164</b>	<b>2,425</b>	<b>513</b>	<b>63</b>	<b>3,165</b>
Additions	0	65	263	476	804
Disposals	0	3	467	461	931
Change in accumulated depreciation	0	172	-324	0	-152
<b>Net book value at 31 December 2021</b>	<b>164</b>	<b>2,315</b>	<b>633</b>	<b>78</b>	<b>3,190</b>
Acquisition cost as at 31 December 2021	164	7,030	2,832	78	10,104
Accumulated depreciation at 31 December 2021	0	4,715	2,199	0	6,914

CZK million	Software	Other intangible assets	Acquisition of assets and prepayments made	Total
Acquisition cost as at 31 December 2020	986	22	1	1,009
Accumulated amortization as at 31 December 2020	817	16	0	833
<b>Net book value at 31 December 2020</b>	<b>169</b>	<b>6</b>	<b>1</b>	<b>176</b>
Additions	50	3	52	105
Disposals	1	0	53	54
Change in accumulated amortization	45	2	0	47
<b>Net book value at 31 December 2021</b>	<b>173</b>	<b>7</b>	<b>0</b>	<b>180</b>
Acquisition cost as at 31 December 2021	1,035	25	0	1,060
Accumulated amortization as at 31 December 2021	862	18	0	880

## 3.6. OTHER ASSETS

Other financial assets include the Bank's share in the ECB, BIS and the SWIFT. The share of the Czech Republic in the ECB's capital as at 31 December 2021 amounts to 1.8794% totaling EUR 7.6 million (as at 31 December 2020 it amounted to 1.8794% totaling EUR 7.6 million). The share was calculated in line with Article 29 of the ESCB and ECB Statute using the population number and gross domestic product.

CZK million	2021	2020
<b>Other financial assets</b>	<b>5,128</b>	<b>4,920</b>
Share in the ECB capital	190	200
BIS and SWIFT shares	4,938	4,720
<b>Receivables from former banks</b>	<b>0</b>	<b>0</b>
Loss-making loans provided to former banks	1,340	1,358
Specific provision for loss-making loans provided to former banks (refer to Note 3.12.)	-1,340	-1,358
<b>Other</b>	<b>1,867</b>	<b>2,554</b>
Prepaid expenses	18	31
Other precious metals	18	8
Positive fair value of interest rate swaps (refer to Note 3.17.)	64	19
Positive fair value of currency forwards (refer to Note 3.17.)	0	100
Margin account including profit/loss from change in fair value of futures (refer to Note 3.17.)	571	1,597
Loans to employees	392	264
Other operating receivables	816	545
Specific provisions against other operating receivables (refer to Note 3.12.)	-12	-10
<b>Other assets</b>	<b>6,995</b>	<b>7,474</b>

## 3.7. NOTES AND COINS IN CIRCULATION

The Bank has the exclusive right to issue Czech notes and coins (including commemorative notes and coins) to be put into circulation and to manage circulation. The Bank withdraws from circulation worn-out and damaged notes and coins, or those unsuitable for further circulation. The Bank additionally supervises processors of notes and coins (banks, security agencies, etc.) to make sure that the determined rules of cash circulation are adhered to (Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins).

	million pieces		CZK million	
	2021	2020	2021	2020
<b>Notes in circulation</b>	<b>535</b>	<b>523</b>	<b>709,095</b>	<b>690,885</b>
CZK 5,000	33	34	165,821	170,207
CZK 2,000	177	164	354,538	327,723
CZK 1,000	147	152	146,589	151,583
CZK 500	43	44	21,740	21,987
CZK 200	69	64	13,831	12,877
CZK 100	66	65	6,574	6,505
Commemorative notes	0	0	2	2

	million pieces		CZK million	
	2021	2020	2021	2020
<b>Coins in circulation</b>	<b>2,198</b>	<b>2,134</b>	<b>22,003</b>	<b>21,001</b>
CZK 50	166	157	8,276	7,852
CZK 20	239	232	4,783	4,637
CZK 10	261	255	2,612	2,548
CZK 5	313	303	1,564	1,516
CZK 2	559	542	1,119	1,085
CZK 1	657	642	657	642
Commemorative coins	3	3	2,992	2,721
<b>Notes and coins in circulation</b>	<b>2,733</b>	<b>2,657</b>	<b>731,098</b>	<b>711,886</b>

## 3.8. LIABILITIES ABROAD

CZK million	2021	2020
Funds from repo transactions	134,897	9,280
Other liabilities abroad	59,746	134,559
<b>Liabilities abroad</b>	<b>194,643</b>	<b>143,839</b>

As of 31 December 2021, funds for repo transactions were secured by collateral in the form of debt securities totaling CZK 134,356 million (31 December 2020: CZK 9,279 million) (refer to Note 3.3.).

In addition, foreign banks made deposits in CZK amounting to CZK 59,585 million (31 December 2020: CZK 134,228 million) and provided collaterals in the form of cash deposits of CZK 137 million (31 December 2020: CZK 308 million) in accordance with master agreements on derivative transactions (ISDA Master Agreement, ISDA Credit Support Annex and GMRA Master Agreements).

## 3.9. LIABILITIES TO DOMESTIC BANKS

CZK million	2021	2020
<b>Loans received - repo transactions</b>	<b>2,132,933</b>	<b>2,147,836</b>
<b>Domestic bank reserves</b>	<b>105,752</b>	<b>72,464</b>
Payment system accounts	99,189	66,004
Balances on cash withdrawal and deposit accounts	6,556	6,452
Special MMR accounts	7	8
<b>Other liabilities to domestic banks</b>	<b>87,400</b>	<b>62,920</b>
Short-term deposits received	87,366	62,910
Other payables	34	10
<b>Liabilities to domestic banks</b>	<b>2,326,085</b>	<b>2,283,220</b>

The CNB concludes reverse repo transactions with domestic banks in the form of received loans (collateral of the CNB's treasury bills) – in the amount of CZK 2,128,110 million as at 31 December 2021 (as at 31 December 2020: CZK 2,109,275 million).

For more information refer to Note 2.8. of Accounting Policies.

3.10. LIABILITIES TO THE GOVERNMENT AND  
OTHER PUBLIC INSTITUTIONS

CZK million	2021	2020
<b>CZK funds</b>	<b>538,491</b>	<b>420,757</b>
Single Treasury Account and other state funds in CZK (refer to Note 2.14.)	480,973	370,389
Other deposits in CZK	57,518	50,368
<b>Foreign currency funds</b>	<b>1,726</b>	<b>1,992</b>
Single Treasury Account in EUR	0	128
Other deposits in foreign currencies	1,726	1,864
<b>State and public institution deposits</b>	<b>540,217</b>	<b>422,749</b>

## 3.11. OTHER LIABILITIES

CZK million	2021	2020
Negative fair value of currency forwards (refer to Note 3.17.)	870	1,337
Negative fair value of interest rate swaps (refer to Note 3.17.)	2,361	4,709
Payables to the European Commission	7,244	5,582
Employee accounts	2,189	2,233
Other payables	1,079	1,071
<b>Other liabilities</b>	<b>13,743</b>	<b>14,932</b>

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

Other liabilities totaling CZK 1,079 million include liabilities of CZK 108 million owing to social security and health insurance premiums as at 31 December 2021 (2020: CZK 100 million). The Bank has no liabilities related to social security and health insurance that would be overdue.

## 3.12. PROVISIONS, SPECIFIC PROVISIONS AND WRITE-OFFS OF ASSETS

CZK million	1 Jan 2020	Additions	Use due to write-offs	Reversals	31 Dec 2020	Additions	Use due to write-offs	Reversals	31 Dec 2021
<b>Specific provisions</b>	<b>1,368</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,368</b>	<b>2</b>	<b>0</b>	<b>18</b>	<b>1,352</b>
Classified loans of former banks (refer to Note 3.6.)	1,358	0	0	0	1,358	0	0	18	1,340
Other operating receivables (refer to Note 3.6.)	10	0	0	0	10	2	0	0	12

CZK million	1 Jan 2020	Additions	Reversals	FX differences	31 Dec 2020	Additions	Reversals	FX differences	31 Dec 2021
<b>Provisions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Guarantees for clients (refer to Note 3.17.)	0	0	0	0	0	0	0	0	0



### 3.13. EQUITY

CZK million	Revaluation reserve	Share capital	Funds	Accumulated losses	Profit/loss for the year	Total equity
Balance as at 1 January 2020	4,029	1,400	0	-187,115	57,898	-123,788
Distribution of 2019 profit	0	0	0	57,898	-57,898	0
Revaluation reserve not included in profit	260	0	0	0	0	260
Profit/loss for 2020	0	0	0	0	91,682	91,682
<b>Balance as at 31 December 2020</b>	<b>4,289</b>	<b>1,400</b>	<b>0</b>	<b>-129,217</b>	<b>91,682</b>	<b>-31,846</b>
Distribution of 2020 profit	0	0	0	91,682	-91,682	0
Other (rounding effect)	0	0	0	-1	0	-1
Revaluation reserve not included in profit	208	0	0	0	0	208
Profit/loss for 2021	0	0	0	0	-37,739	-37,739
<b>Balance as at 31 December 2021</b>	<b>4,497</b>	<b>1,400</b>	<b>0</b>	<b>-37,536</b>	<b>-37,739</b>	<b>-69,378</b>

The revaluation reserve represents the change in the fair value of shares and interests representing participations remeasured through equity (participations in international institutions) until the time of sale or permanent impairment (refer to Note 2.4.).

The Bank's only fund is the general reserve fund which has been created from profit and is restricted to cover accumulated losses, increase in the share capital or for any other purpose approved by the Bank Board of the CNB. In 2019, based on the decision of the CNB's Bank Board, the general reserve fund was used in full to decrease the accumulated loss of prior years. Distribution of current year profit is made on the grounds of the Bank Council's decision.

### 3.14. NET INTEREST INCOME

CZK million	2021	2020
<b>Interest income and similar income</b>	<b>15,525</b>	<b>19,435</b>
Interest on securities	15,111	18,774
Interest on zero-coupon bonds	5	143
Interest on coupon bonds	13,933	17,749
Interest on MBS	1,173	882
Other interest income	414	661
Interest on inter-bank deposits	410	658
Interest on employees loans	4	3
<b>Interest expense and similar expense</b>	<b>33,992</b>	<b>32,658</b>
Interest on liabilities to banks	33,974	32,625
Interest on liabilities to employees and other clients	18	33
<b>Net interest income</b>	<b>-18,467</b>	<b>-13,223</b>

Net interest income represents the difference between interest received and interest paid on securities and deposits.

### 3.15. GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

CZK million	2021	2020
<b>Foreign exchange gains or losses and foreign exchange spread</b>	<b>-90,336</b>	<b>19,281</b>
Foreign exchange gains/losses <sup>1</sup>	-91,433	18,222
Foreign exchange spread	1,097	1,059
<b>Other</b>	<b>62,460</b>	<b>79,615</b>
Gains/losses from revaluation and sale of bonds	-38,742	54,033
Gains/losses from revaluation and sale of MBS	-1,873	172
Gains/losses from revaluation and sale of shares	99,542	27,691
Net gains/losses from currency forwards	1,164	1,443
Net gains/losses from interest rate futures	234	-169
Net gains/losses from interest rate swaps	1,497	-3,878
Net gains/losses from share futures	638	323
<b>Profit/loss from financial transactions</b>	<b>-27,876</b>	<b>98,896</b>

<sup>1</sup> FOREX losses were caused by a significant change in koruna exchange rate.

The foreign exchange spread represents the difference between the ask or bid foreign exchange rate and the mid foreign exchange rate used for purchases and sales of the cash and non-cash transactions of the Bank's clients.

## 3.16. OTHER COSTS

CZK million	2021	2020
<b>Personnel costs</b>	<b>2,013</b>	<b>1,903</b>
Wages and salaries	1,409	1,325
Social security and health insurance	468	443
Cost of personnel training	6	6
Employee benefits	130	129
<b>Other administrative expenses</b>	<b>369</b>	<b>337</b>
Rent	6	4
Other	363	333
<b>Total administrative expenses</b>	<b>2,382</b>	<b>2,240</b>

As at 31 December 2021, the average recalculated headcount including the Bank Board amounted to 1,448 employees (as at 31 December 2020: 1,454 employees).

## 3.17. OFF-BALANCE SHEET ITEMS

## GUARANTEES

CZK million	2021	2020
<b>Guarantees issued</b>	<b>804</b>	<b>804</b>
Guarantees for clients (refer to Note 3.12.)	0	0
For deposits held by IPB	4	4
Consolidation of the banking sector – sale of part of the business of Agrobanka Praha a. s.	800	800
<b>Guarantees received</b>	<b>0</b>	<b>0</b>
State guarantee to secure the loan to the IMF	0	0

The Bank has not recognized a provision for claims for the guarantees provided in connection with the sale of part of the business of Agrobanka Praha, a.s. because it considers the claim-related risk to be insignificant based on the available information.

## COLLATERAL RECEIVED

CZK million	2021	2020
Repo transactions	11,144	46,024
Collateral received for shares granted within the lending scheme	38,110	16,101
Derivatives and additional collateral	524	156
Swap transactions	10,899	13,341
<b>Collateral received</b>	<b>60,677</b>	<b>75,622</b>

The Bank shall be guaranteed by depositor the return of securities in the total amount of CZK 418 billion as part of automatic lending schemes.

## SPOT TRANSACTIONS AND FINANCIAL DERIVATIVES

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

CZK million	2021	2020
<b>Off-balance sheet receivables</b>	<b>402,985</b>	<b>529,014</b>
from currency forward transactions	282,042	361,676
from interest rate swap transactions	57,809	35,075
from interest rate futures transactions	16,613	11,459
from share futures transactions	2,532	3,708
from unsettled interest rate spot transactions	5,548	72,957
from unsettled currency spot transactions	26,179	26,279
from interest forward transactions	12,262	17,860
<b>Off-balance sheet liabilities</b>	<b>403,737</b>	<b>530,180</b>
from currency forward transactions	282,779	362,831
from interest rate swap transactions	57,809	35,075
from interest rate futures transactions	16,613	11,460
from share futures transactions	2,533	3,708
from unsettled interest rate spot transactions	5,548	72,957
from unsettled currency spot transactions	26,193	26,289
from interest forward transactions	12,262	17,860

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

CZK million	2021	2020
Off-balance sheet receivables from forward transactions	282,042	361,676
Off-balance sheet payables from forward transactions	282,779	362,831
Positive fair value (refer to Note 3.6.)	0	100
Negative fair value (refer to Note 3.11.)	870	1,337

All currency forwards will mature in 2022.

The foreign currency forwards do not qualify for hedge accounting as defined by Czech accounting regulations and, accordingly, are treated as derivatives held for trading. Gains and losses from the change in the fair value of these foreign currency forwards are reported in gains less losses from financial operations. Gains and losses from revaluation arising from changes in foreign exchange rates are reported under net foreign exchange gains/losses and foreign exchange spread (refer to Note 3.15.).

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

CZK million	2021	2020
Off-balance sheet receivables from interest rate swap transactions	57,809	35,075
Off-balance sheet payables from interest rate swap transactions	57,809	35,075
Positive fair value (refer to Note 3.6.)	64	19
Negative fair value (refer to Note 3.11.)	2,361	4,709

The interest rate swaps also do not qualify for hedge accounting as defined by Czech accounting regulations and, accordingly, are treated as derivatives held for trading. Gains and losses from the change in the fair value are recorded in gains less losses from financial operations (refer to Note 3.15.). The gold received as part of swap transactions is measured at market price and reported off balance sheet as received collateral.

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

CZK million	2021	2020
Off-balance sheet receivables from interest rate futures transactions	16,613	11,459
Off-balance sheet payables from interest rate futures transactions	16,613	11,460
Net gain/loss from change in fair values of interest rate futures transactions for the reporting period (refer to Note 3.15.)	234	-169
Off-balance sheet receivables from share futures transactions	2,532	3,708
Off-balance sheet payables from share futures transactions	2,533	3,708
Net gain/loss from change in fair values of futures transactions for the reporting period (refer to Note 3.15.)	638	323
Net gain/loss from change in fair values of futures transactions for the reporting period	873	154
Cash on margin account	302	1,442
Margin account including settled change in fair value of interest rate futures transactions (refer to Note 3.6.)	571	1,597

Gains or losses from change in fair values of futures transactions are settled on an ongoing basis against cash on margin account reported within other assets.

The interest rate and share futures transactions also do not qualify for hedge accounting as defined by Czech accounting regulations and, accordingly, are treated as derivatives held for trading. Gains and losses from the change in the fair value are recorded in gains less losses from financial operations (refer to Note 3.15.).

#### Assets held in custody

The Bank did not receive any financially significant assets from third parties to be held in custody in 2021 and 2020.

### 3.18. FINANCIAL RISKS

#### Liquidity Risk

The Bank monitors and manages the structure of its foreign currency reserves with respect to the use of its foreign currency reserves taking into consideration developments in financial markets and size of the reserves. For these purposes, the Bank has allocated a portion of foreign reserve assets to the so-called liquidity tranche in which it maintains funds that are intended for immediate need. In addition, the Bank invests part of the investment tranche in government bonds of the most advanced countries, which are also the most liquid instruments on the market.

#### Interest Rate Risk

The Bank holds financial instruments in its foreign reserves, the price of which is sensitive to changes in market interest rates. This sensitivity is expressed by duration. The Bank manages interest rate risk by setting limits on the maximum duration, for individual tranches and individual portfolios. These limits are set with regard to the use of foreign reserves, their amount and expected return.

#### Currency Risk

The CZK value of foreign currency reserves is exposed to changes in the CZK exchange rate versus individual foreign currencies in which foreign reserves are held. Due to the necessity to keep foreign currency reserves and subordinate their development to the primary statutory target of monetary stability, the CNB is not able to fully eliminate the risk of decrease of CZK value of foreign currency reserves from the strengthening of the Czech currency against major foreign currencies. However, by appropriate diversification into several currencies, the Bank seeks to minimize this risk by at least partially taking advantage of the opposing movements in the CZK exchange rate.

#### Credit risk and the concentration of liabilities

The Bank manages the levels of credit risk it undertakes during the management of foreign currency reserves by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers and to geographical segments. Such risks are monitored on an ongoing basis and are subject to review at least once per year. The basic measure of credit risk is the rating of the borrower or issuer of a security from reputable rating agencies.



**LIQUIDITY RISK**

The table below presents the structure of financial instruments in terms of their liquidity by contractual maturity.

<b>CZK million</b>		Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Not specified	<b>Total</b>
Gold	2021	0	0	0	0	0	13,483	<b>13,483</b>
	2020	0	0	0	0	0	12,247	12,247
Receivables from the IMF	2021	0	0	0	0	0	144,298	<b>144,298</b>
	2020	0	0	0	0	0	81,402	81,402
Zero-coupon bonds	2021	31,019	9,536	4,858	10,304	0	0	<b>55,717</b>
	2020	25,700	61,699	36,144	20,377	0	0	143,920
Coupon bonds	2021	0	1,171	78,174	1,156,565	542,337	0	<b>1,778,247</b>
	2020	2,859	23,929	100,931	999,785	559,062	0	1,686,566
MBS	2021	2,778	1,368	395	557	38,908	0	<b>44,006</b>
	2020	4,288	1,208	385	160	37,499	0	43,540
Shares	2021	0	0	0	0	0	568,405	<b>568,405</b>
	2020	0	0	0	0	0	468,535	468,535
Deposits, loans and other receivables from abroad	2021	1,259,240	0	0	0	0	0	<b>1,259,240</b>
	2020	1,172,843	0	0	0	0	0	1,172,843
Receivables from domestic banks	2021	0	0	0	0	0	0	<b>0</b>
	2020	0	0	0	0	0	0	0
Tangible and intangible assets	2021	0	0	0	0	0	3,370	<b>3,370</b>
	2020	0	0	0	0	0	3,341	3,341
Other assets	2021	1,458	0	18	41	350	5,128	<b>6,995</b>
	2020	2,260	0	31	36	227	4,920	7,474
<b>Total assets</b>	2021	<b>1,294,495</b>	<b>12,075</b>	<b>83,445</b>	<b>1,167,467</b>	<b>581,595</b>	<b>734,684</b>	<b>3,873,761</b>
	2020	1,207,950	86,836	137,491	1,020,358	596,788	570,445	3,619,868
Notes and coins in circulation	2021	0	0	0	0	0	731,098	<b>731,098</b>
	2020	0	0	0	0	0	711,886	711,886
Liabilities to the IMF	2021	0	0	0	0	0	137,353	<b>137,353</b>
	2020	0	0	0	0	0	75,088	75,088
Liabilities abroad	2021	194,643	0	0	0	0	0	<b>194,643</b>
	2020	143,763	0	76	0	0	0	143,839
Liabilities to domestic banks	2021	2,326,085	0	0	0	0	0	<b>2,326,085</b>
	2020	2,283,220	0	0	0	0	0	2,283,220
Liabilities to the government	2021	540,217	0	0	0	0	0	<b>540,217</b>
	2020	422,749	0	0	0	0	0	422,749
Other liabilities	2021	13,743	0	0	0	0	0	<b>13,743</b>
	2020	14,932	0	0	0	0	0	14,932
Provisions	2021	0	0	0	0	0	0	<b>0</b>
	2020	0	0	0	0	0	0	0
Equity	2021	0	0	0	0	0	-69,378	<b>-69,378</b>
	2020	0	0	0	0	0	-31,846	-31,846
<b>Total liabilities</b>	2021	<b>3,074,688</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>799,073</b>	<b>3,873,761</b>
	2020	2,864,664	0	76	0	0	755,128	3,619,868
<b>Net liquidity gap</b>	2021	<b>-1,780,193</b>	<b>12,075</b>	<b>83,445</b>	<b>1,167,467</b>	<b>581,595</b>	<b>-64,389</b>	<b>0</b>
	2020	-1,656,714	86,836	137,415	1,020,358	596,788	-184,683	0

**INTEREST RATE RISK**

The table below presents the structure of financial instruments in terms of their sensitivity to interest rate as per coupon maturity or interest rate date of debt instrument.

CZK million		Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Not sensitive to the interest rate	Total
Gold	2021	0	0	0	0	0	13,483	<b>13,483</b>
	2020	0	0	0	0	0	12,247	12,247
Receivables from the IMF	2021	0	0	0	0	0	144,298	<b>144,298</b>
	2020	0	0	0	0	0	81,402	81,402
Zero-coupon bonds	2021	31,019	9,536	4,858	10,304	0	0	<b>55,717</b>
	2020	25,700	61,699	36,144	20,377	0	0	143,920
Coupon bonds	2021	7,776	19,051	120,879	1,089,898	540,643	0	<b>1,778,247</b>
	2020	17,668	39,534	127,732	949,060	552,572	0	1,686,566
MBS	2021	2,778	1,368	395	557	38,908	0	<b>44,006</b>
	2020	4,288	1,208	385	160	37,499	0	43,540
Shares	2021	0	0	0	0	0	568,405	<b>568,405</b>
	2020	0	0	0	0	0	468,535	468,535
Deposits, loans and other receivables from abroad	2021	1,259,240	0	0	0	0	0	<b>1,259,240</b>
	2020	1,172,843	0	0	0	0	0	1,172,843
Receivables from domestic banks	2021	0	0	0	0	0	0	<b>0</b>
	2020	0	0	0	0	0	0	0
Tangible and intangible assets	2021	0	0	0	0	0	3,370	<b>3,370</b>
	2020	0	0	0	0	0	3,341	3,341
Other assets	2021	1,476	0	0	41	350	5,128	<b>6,995</b>
	2020	2,291	0	0	36	227	4,920	7,474
<b>Total assets</b>	2021	<b>1,302,289</b>	<b>29,955</b>	<b>126,132</b>	<b>1,100,800</b>	<b>579,901</b>	<b>734,684</b>	<b>3,873,761</b>
	2020	1,222,790	102,441	164,261	969,633	590,298	570,445	3,619,868
Notes and coins in circulation	2021	0	0	0	0	0	731,098	<b>731,098</b>
	2020	0	0	0	0	0	711,886	711,886
Liabilities to the IMF	2021	0	0	0	0	0	137,353	<b>137,353</b>
	2020	0	0	0	0	0	75,088	75,088
Liabilities abroad	2021	194,643	0	0	0	0	0	<b>194,643</b>
	2020	143,839	0	0	0	0	0	143,839
Liabilities to domestic banks	2021	2,326,085	0	0	0	0	0	<b>2,326,085</b>
	2020	2,283,220	0	0	0	0	0	2,283,220
Liabilities to the government	2021	540,217	0	0	0	0	0	<b>540,217</b>
	2020	422,749	0	0	0	0	0	422,749
Other liabilities	2021	13,743	0	0	0	0	0	<b>13,743</b>
	2020	14,932	0	0	0	0	0	14,932
Provisions	2021	0	0	0	0	0	0	<b>0</b>
	2020	0	0	0	0	0	0	0
Equity	2021	0	0	0	0	0	-69,378	<b>-69,378</b>
	2020	0	0	0	0	0	-31,846	-31,846
<b>Total liabilities</b>	2021	<b>3,074,688</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>799,073</b>	<b>3,873,761</b>
	2020	2,864,740	0	0	0	0	755,128	3,619,868
<b>Net interest sensitivity gap</b>	2021	<b>-1,772,399</b>	<b>29,955</b>	<b>126,132</b>	<b>1,100,800</b>	<b>579,901</b>	<b>-64,389</b>	<b>0</b>
	2020	-1,641,950	102,441	164,261	969,633	590,298	-184,683	0

**CURRENCY RISK**

The table below presents the structure of financial instruments in terms of their division per currencies.

CZK million		CZK	EUR	USD	JPY	GBP	CAD	AUD	CNY	Other	Total
Gold	2021	0	0	0	0	0	0	0	0	13,483	<b>13,483</b>
	2020	0	0	0	0	0	0	0	0	12,247	12,247
Receivables from the IMF	2021	49,183	0	0	0	0	0	0	0	95,115	<b>144,298</b>
	2020	51,056	0	0	0	0	0	0	0	30,346	81,402
Zero-coupon bonds	2021	0	19,770	0	35,947	0	0	0	0	0	<b>55,717</b>
	2020	0	101,552	0	42,368	0	0	0	0	0	143,920
Coupon bonds	2021	0	796,516	537,238	0	86,519	185,398	102,050	40,947	29,579	<b>1,778,247</b>
	2020	0	734,845	528,772	0	89,136	183,851	104,427	11,427	34,108	1,686,566
MBS	2021	0	0	44,006	0	0	0	0	0	0	<b>44,006</b>
	2020	0	0	43,540	0	0	0	0	0	0	43,540
Shares	2021	0	283,596	148,548	26,064	25,316	56,568	28,313	0	0	<b>568,405</b>
	2020	0	240,027	112,406	26,603	20,446	44,088	24,965	0	0	468,535
Deposits, loans and other receivables from abroad	2021	0	1,055,868	26,589	50,969	11,769	168	203	21	113,653	<b>1,259,240</b>
	2020	0	953,493	42,058	62,562	1,370	114	210	3	113,033	1,172,843
Receivables from domestic banks	2021	0	0	0	0	0	0	0	0	0	<b>0</b>
	2020	0	0	0	0	0	0	0	0	0	0
Tangible and intangible assets	2021	3,057	0	0	0	0	0	0	0	313	<b>3,370</b>
	2020	3,024	0	0	0	0	0	0	0	317	3,341
Other assets	2021	538	1,073	129	47	87	123	42	0	4,956	<b>6,995</b>
	2020	472	1,409	308	215	109	142	93	0	4,726	7,474
<b>Total assets</b>	2021	<b>52,778</b>	<b>2,156,823</b>	<b>756,510</b>	<b>113,027</b>	<b>123,691</b>	<b>242,257</b>	<b>130,608</b>	<b>40,968</b>	<b>257,099</b>	<b>3,873,761</b>
	2020	54,552	2,031,326	727,084	131,748	111,061	228,195	129,695	11,430	194,777	3,619,868
Notes and coins in circulation	2021	731,098	0	0	0	0	0	0	0	0	<b>731,098</b>
	2020	711,886	0	0	0	0	0	0	0	0	711,886
Liabilities to the IMF	2021	49,183	0	0	0	0	0	0	0	88,170	<b>137,353</b>
	2020	51,056	0	0	0	0	0	0	0	24,032	75,088
Liabilities abroad	2021	59,609	123,371	62	0	11,601	0	0	0	0	<b>194,643</b>
	2020	134,251	129	9,459	0	0	0	0	0	0	143,839
Liabilities to domestic banks	2021	2,326,085	0	0	0	0	0	0	0	0	<b>2,326,085</b>
	2020	2,283,220	0	0	0	0	0	0	0	0	2,283,220
Liabilities to the government	2021	538,491	0	1,726	0	0	0	0	0	0	<b>540,217</b>
	2020	420,757	128	1,863	0	1	0	0	0	0	422,749
Other liabilities	2021	11,007	395	2,323	0	15	0	2	0	1	<b>13,743</b>
	2020	9,741	462	4,728	0	1	0	0	0	0	14,932
Provisions	2021	0	0	0	0	0	0	0	0	0	<b>0</b>
	2020	0	0	0	0	0	0	0	0	0	0
Equity	2021	-73,962	0	0	0	0	0	0	0	4,584	<b>-69,378</b>
	2020	-36,211	0	0	0	0	0	0	0	4,365	-31,846
<b>Total liabilities</b>	2021	<b>3,641,511</b>	<b>123,766</b>	<b>4,111</b>	<b>0</b>	<b>11,616</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>92,755</b>	<b>3,873,761</b>
	2020	3,574,700	719	16,050	0	2	0	0	0	28,397	3,619,868
<b>Net assets/liabilities (-)</b>	2021	<b>-3,588,733</b>	<b>2,033,057</b>	<b>752,399</b>	<b>113,027</b>	<b>112,075</b>	<b>242,257</b>	<b>130,606</b>	<b>40,968</b>	<b>164,344</b>	<b>0</b>
	2020	-3,520,148	2,030,607	711,034	131,748	111,059	228,195	129,695	11,430	166,380	0
Net off-balance sheet assets	2021	0	68,271	296,647	28,436	4,986	598	3,494	0	553	<b>402,985</b>
	2020	71	132,888	307,671	84,813	236	1,239	2,096	0	0	529,014
Net off-balance sheet liabilities	2021	0	-93,411	-102,114	-90,772	-3,145	-248	-5,970	0	-108,077	<b>-403,737</b>
	2020	-71	-146,103	-168,935	-105,145	-237	-228	-291	0	-109,170	-530,180
<b>Net open currency position</b>	2021	<b>-3,588,733</b>	<b>2,007,917</b>	<b>946,932</b>	<b>50,691</b>	<b>113,916</b>	<b>242,607</b>	<b>128,130</b>	<b>40,968</b>	<b>56,820</b>	<b>-752</b>
	2020	-3,520,148	2,017,392	849,770	111,416	111,058	229,206	131,500	11,430	57,210	-1,166



## CREDIT RISK AND CONCENTRATION OF LIABILITIES

The table below presents the structure of financial instruments in terms of geographical segments.

### ASSETS

CZK million	2021	2020
Czech Republic	9,061	9,244
Germany	693,716	973,787
France	223,098	257,673
The Netherlands	80,104	129,012
Austria	9,575	31,592
Slovakia	1,029,826	546,395
Luxembourg	54,906	17,838
Spain	20,937	19,964
Other Eurozone countries	70,552	91,914
Switzerland	116,830	116,231
Sweden	31,309	48,343
Denmark	4,700	4,873
United Kingdom	124,601	143,110
Norway	20,532	22,821
Other European countries	246	260
USA	870,435	712,772
Canada	265,172	257,381
Australia	89,462	88,856
Japan	112,537	131,205
Other countries	46,162	16,597
<b>Geographical concentration of assets</b>	<b>3,873,761</b>	<b>3,619,868</b>

### LIABILITIES

Czech Republic	3,534,522	3,395,359
USA	137,490	75,303
Eurozone countries	153,748	93,889
Other European countries	47,813	31,488
Other countries	188	23,829
<b>Geographical concentration of liabilities</b>	<b>3,873,761</b>	<b>3,619,868</b>

### 3.19. CONTINGENT LIABILITIES

In accordance with the Agreement for the payment of operating costs and losses related to assumed assets that are incurred in connection with the fulfilment of the Consolidation Programme concluded on 29 June 2000, as amended, the CNB charges against income the amounts it pays for the acknowledged reasonable operating costs of the Ministry of Finance of the Czech Republic (until 31 December 2007 the costs of Česká konsolidační agentura a.s.). In 2021 these costs amounted to CZK 0.1 million (2020: CZK 0.1 million). The Bank does not recognize any provisions for these contingencies as they are immaterial.

#### **Pending litigation**

As a result of the activities the CNB conducted pursuant to its role in supporting and maintaining the stability of the banking sector, the CNB or third parties are defendants in several court proceedings. Based on consultation with external lawyers and internal analyses, the CNB does not consider it probable that the outcome of these legal cases will result in any material outflow of the CNB's resources and, therefore, has not recognized any provisions. Similarly, the Bank evaluates the contingencies and commitments from legal cases which relate to the activities of the former authorities of financial market supervision and which the Bank keeps on the basis of Act No. 57/2006 Col., on the Amendment of Acts Connected with the Unification of Financial Market Supervision. According to this Act, any financial liabilities arising from these legal cases would be reimbursed by the state.

### 3.20. RELATED PARTY TRANSACTIONS

Related parties and parties with special relations to the Bank are members of the Bank Board, senior management at the top level and their relatives.

In accordance with internal rules the CNB provides the members of the Bank Board and senior management with services consisting of maintaining current and deposit accounts and special purpose loans, especially for housing. The loans to the members of the Bank Board and senior management are provided under standard conditions same as loans to other employees of the Bank.

### 3.21. SUBSEQUENT EVENTS

The CNB's management is not aware of any other subsequent events that would have a material impact on the financial statements for the year ended 31 December 2021.

The following attached external auditor's report was issued for the financial statements, annual report, and annual Financial Report of the Czech National Bank



(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

## INDEPENDENT AUDITOR'S REPORT

To the Bank Board of the Czech National Bank:

### *Opinion*

We have audited the accompanying financial statements of the Czech National Bank prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2021, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Czech National Bank, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Czech National Bank as at 31 December 2021, and of its financial performance for the year then ended in accordance with accounting principles generally accepted 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 clauses. 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 Matters*

The financial statements of the Czech National Bank for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those statements on 19 March 2021.

### *Other Information*

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 and information also included in the Financial Report submitted to the House of Deputies of the Czech Parliament for 2021. The Bank Board of the Czech National Bank is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

#### *Responsibilities of the Bank Board of the Czech National Bank for the Financial Statements*

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

In preparing the financial statements, the Bank Board of the Czech National Bank is responsible for assessing the Czech National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank Board of the Czech National Bank either intends to liquidate the Czech National Bank 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 above regulations 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 Banks's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank Board of the Czech National Bank.
- Conclude on the appropriateness of the Bank Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Czech National Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Czech National Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young Audit, s.r.o.  
License No. 401



Roman Hauptfleisch, Auditor  
License No. 2009

23 March 2022  
Prague, Czech Republic





# Abbreviations

ABO	Automated Banking Operations
AIFMD	Alternative Investment Fund Managers Directive
AnaCredit	Analytical Credit Datasets
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
BSCEE	Group of Banking Supervisors from Central and Eastern Europe
CCR	Central Credit Register
CERTIS	Czech Express Real Time Interbank Gross Settlement System
CNB	Czech National Bank
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CZK	Czech koruna
CZSO	Czech Statistical Office
DSTI	debt service-to-income
DTI	debt-to-income
EBA	European Banking Authority
ECB	European Central Bank
ECOFIN Council	EU Council in the composition of the ministers of economy and finance
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
EPC	Economic Policy Committee
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	environmental, social and governance framework
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	exchange-traded fund
EU	European Union
EUR	euro
FSB	Financial Stability Board
FSI	Financial Stability Institute
FTSE 100	benchmark index for the UK stock market
GDP	gross domestic product
HFCS	Household Finance and Consumption Survey
IAIS	International Association of Insurance Supervisors
IDD	Insurance Distribution Directive
IFD	Investment Firm Directive

IFR	Investment Firm Regulation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
LTV	loan-to-value
MBS	mortgage-backed securities
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MPR	Monetary Policy Report
MREL	minimum requirement for own funds and eligible liabilities
MSCI Euro	benchmark index for the European stock market
MtS	the CNB's information system for data collection
Nikkei 225	benchmark index for the Japanese stock market
OECD	Organisation for Economic Cooperation and Development
PRIBOR	Prague Interbank Offered Rate
RCGE	FSB Regional Consultative Group for Europe
S&P 500	benchmark index for the US stock market
S&P ASX 200	benchmark index for the Australian stock market
S&P TSX	benchmark index for the Canadian stock market
SDAT	the CNB's data collection system
SDR	special drawing rights
SKD	Short-Term Bond System
Solvency II	Directive on Insurance and Reinsurance
SRB	Single Resolution Board
USD	US dollar

### Country abbreviations

BG	Bulgaria	LU	Luxembourg
CZ	Czech Republic	NO	Norway
DK	Denmark	RO	Romania
EE	Estonia	SE	Sweden
IS	Iceland	SK	Slovakia



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