

8 SECTOR: FINANCIAL CORPORATIONS

The **sector financial corporations (S.12)** consists of all corporations and quasi-corporations, which are principally engaged in financial intermediation (financial intermediaries) and/or in auxiliary financial activities (financial auxiliaries). Financial intermediation is the activity, in which an institutional unit acquires financial assets and at the same time incurs liabilities on its own account by engaging in financial transactions on the market. The assets and liabilities of the financial intermediaries have different characteristics, involving that the funds are transformed or repackaged with respect to maturity, scale, risk and the like in the financial intermediation process. Auxiliary financial activities are activities closely related to financial intermediation but which are not financial intermediation themselves.

In the economic system the sector of financial corporations occupies a special position. It enables to transfer resources among third parties, that means from entities having surplus of resources, on one hand, to those lacking resources, on the other hand. This supports economic activities and capital allocations. Doing so the financial intermediaries expose themselves to a risk by acquisition of financial assets and receiving liabilities to their own accounts. The financial intermediation process may include all financial assets, except for the item AF.6 (insurance technical reserves), and all financial obligations except for the item AF.7 (other accounts payable).

The sector of financial corporations is subdivided into five subsectors:

- a) **The central bank (S.121)** – the primary purpose is to issue currency, maintaining of the internal and external value of the currency, and administration of international reserves. This subsector includes the central bank only;
- b) **Other monetary financial institutions (S.122)** –institutions receiving deposits and/or close substitutes for deposits and providing of loans or investments into securities on their own account. This sector includes commercial banks, credit unions, and money market funds;
- c) **Other financial intermediaries, except insurance corporations and pension funds (S.123)** – this subsector includes entities engaged in financial intermediation by receiving liabilities in a form other than currency, deposits and/or close substitutes for deposits, or insurance technical reserves. The general difference from the subsector S.122 is the units classified in the S.123 are focused on long-term financing. These are leasing companies, factoring companies, investment companies and funds, special purpose entities (SPE), holding companies, security brokers dealing on their own account, etc.;
- d) **Financial auxiliaries (S.124)** – units not primarily engaged in financial intermediation, but whose activities are closely related to or supporting financial intermediation; this subsector includes insurance brokers, consultants, financial market organisers, institutions providing infrastructure for financial markets, fund managers, interest groups (unions, associations), brokers dealing with securities at other person's account, etc. The Deposit Insurance Fund makes an important part of the subsector;
- e) **Insurance corporations and pension funds (S.125)** – these corporations or quasi-corporations are principally engaged in financial activities as the consequence of the pooling of risks, whereas liabilities of these institutions are mainly in the form of insurance technical reserves. Pension funds, insurance companies, and also assurance companies are classified in this subsector.

The output of the central bank is evaluated using a cost method. The output of banks and leasing companies is increased by the output of so-called FISIM (*financial intermediation services indirectly measured*). The reason for this adjustment is better international comparability due to different direct fee policies of main commercial banks for financial services.

The subsectors are further broken by type of ownership to the public, national private, and foreign controlled financial institutions.

Here the main data sources are the CNB and a statistical survey of the CZSO.