REPORT ON FINANCIAL MARKET DEVELOPMENTS IN 2015

June 2016

CONTENTS

The data presented in this report were obtained from the specified sources between April and May 2016.

SUMMARY OF DEVELOPMENTS IN 2015

Macroeconomic Situation and External Development

In 2015, the year-on-year real gross domestic product in the Czech Republic increased by 4.2% with dominant role of the domestic demand. The GDP current account balance achieved the positive value of 0.9%, just as in 2014. During 2015, the year-on-year inflation rate stayed below the inflation target of the Czech National Bank, and it grew by 0.1% at the end of the year. At the end of 2015, the Czech crown appreciated year-on-year by 2.5% in relation to euro to a rate of 27.0 CZK/EUR; on the other hand, it depreciated by 8.7% in respect to dollar to a rate of 24.8 CZK/USD. Therefore, for the whole time, the exchange rate remained above the one-sided exchange rate commitment.

Fiscal Situation

In 2015, the government sector's budget achieved the record-low deficit of CZK 18.7 billion, which corresponds with 0.4% of GDP. In the year-on-year comparison, the deficit related to GDP decreased by 1.5 p.p. The government sector's debt reached 41.1% of GDP, and in relation to GDP, the debt decreased for the second year.

Funds Available in the Financial Market

The total volume of funds increased by 4.1% during 2015 to attain a value of CZK 4.8 trillion. The greatest absolute growth was recorded for the resources that were deposited with credit institutions, as they continue to be the largest share segment. The resources that were placed in investment funds increased relatively the most.

Structure of Household Savings

Total household savings kept in intermediary financial market products increased by 7.4% year-on-year and achieved the value of CZK 3 trillion. Once again, there was a noticeable outflow of resources in the case of term deposits (-0.3%) and in the building savings schemes (-7.1%). Conversely, demand deposits were growing (11.0%) and the household savings kept in investment funds and pension funds recorded a significant increase as well (by 24.5% and 10.6%, respectively).

Financial Market Entities

There were only minor changes in the number of the entities in each of the segments. More important structural changes took place especially via a takeover, merger, or acquisition. The merger of companies that belonged to the Generali Group created the biggest investment company operating on the Czech capital market – Generali Investments CEE. In the banking sector, the Bank of China branch received a permission to operate on the Czech market and the BNP Paribas Personal finance branch entered the market via the merger with its subsidiary non-bank company, Cetelem, in 2015; conversely, the branch of an Austrian private bank, Meinl Bank, left the market.

Banking Sector

The total volume of banking sector assets increased by 3.0%; by the end of 2015, they amounted to CZK 5.5 trillion. Therefore, the growth dynamics from 2014 was sustained. The reported pre-tax profit amounted to CZK 80.9 billion, which reflects a year-on-year growth of 6.3%, which is historically the best result that has ever been achieved. The total capital ratio of the banking sector remained high above the regulatory minimum of 18.4%.

Interest Rates

The CNB kept its key rate (the 2W repo rate) at 0.05% during the entire year of 2015 and continued to maintain its exchange rate commitment, thus keeping market interest rates at the lowest level they have ever been. The APR for new consumer loans decreased by 2.5 p.p. to 12.4%. The residential property loan APR declined to a historical minimum (2.7%).

Deposits and Loans

The volume of client bank deposits grew by 2.5% and at the end of 2015, it reached a level of CZK 3.5 trillion. In case of bank loans, the volume increased by 5.6% to CZK 2.8 trillion. The indicator reflecting the share of non-performing loans to the total client loans decreased slightly by 0.3 p.p. to 5.8% over the course of the year and, therefore, continued in its long-term oscillation around 6%. The ratio of client deposits to client loans, which has been stable in the Czech Republic over the long-term, exceeded 125%.

Mortgage Market

The volume of newly provided mortgage loans, which amounted to CZK 87.1 billion in 2015, was lower by 20.2% in comparison with 2014. As the total, the mortgage loan volume increased to CZK 1.26 trillion. The most client-popular mortgage loans with the fix rate for 1 to 5 years increased year-on-year by 19.0% and reached CZK 716.7 billion.

Building Savings Banks

In comparison with 2014, the new volume of loans granted by the building savings banks in 2015 grew by 22.7% and reached CZK 45.8 billion, whereas other values were steadily decreasing. In 2015, 373.1 thousand new contracts were signed; in total, the building savings banks had on file 3.5 million of contracts in the savings phase. During the third year of the decrease, the total amount of saved amount dropped below the CZK 400 billion boundary and reached CZK 384.2 billion at the end of 2015.

Credit Unions

There were no significant changes in the credit unions sector in 2015. Just as in 2014, there were 11 credit unions represented on the market, of which 2 biggest ones represented 64% of the sector according to the amount of assets. Despite the year-on-year member decrease, there was the year-on-year increase of assets by 3.4%. However, on the positive side, the share of non-performing loans to total liabilities decreased to 18.8%, the share of quick assets to total assets increased to 27.4%, and the total capital ratio grew year-on-year to 15.8%.

Regulated and OTC Markets

The main Czech PX index recorded the year-on-year increase of 1.0% and fluctuated between 919.7 and 1,058.4 points. During 2015, the shares trading trend changed, and after the long-term decrease, the shares trading increased by 9.4%. The second most important segment, i.e. bond trading, decreased by 38% on regulated markets.

Securities Dealers and Asset Management

The securities trading volume in the securities dealers sector decreased by 36.4% year-on-year to CZK 59 trillion. The most significant decrease is apparent in non-bank securities trading that registered CZK 20.7 trillion less in trading, followed by bank securities trading whose trading decreased by CZK 13.1 trillion, and the slightest decrease can be seen by investment companies with the total of CZK 14.1 billion. The volume of assets entrusted to assets managers in 2015 grew by 2.2% year-on-year to the total of approximately CZK 1.2 trillion when the volume of managed assets was growing in the majority of financial groups.

Investment Funds

In 2015, the volume invested in collective investment funds grew by 20.4% or CZK 65.3 billion in the absolute terms. At the end of 2015, the total of CZK 385.3 billion were invested in these funds. Of that, the value of the assets in foreign funds increased by CZK 22.2 billion, i.e. by 13.9%, in 2015, and the domestic funds increased by CZK 43.2 billion, i.e. by 26.9%. The bigger share of domestic funds was the result of not only their popularity, but also of the fact that several funds moved to the Czech Republic from abroad. In 2015, the balanced funds saw the greatest influx of new resources and their assets increased by CZK 35.2 billion, followed by share funds that increased by CZK 13.6 billion. The volume of the assets managed in qualified investment funds decreased by CZK 3.7 billion to CZK 68.5 billion in 2015.

Insurance Companies

The insurance sector slightly decreased. Total gross premiums written reached CZK 153.4 billion, which represents 2.9% year-on-year decrease. Increase of 4.9% was achieved due to the non-life insurance segment while, conversely, there was 12.3% decline in the life insurance segment. From the economic point of views, the insurance market achieved a very favourable economic result of CZK 11.4 billion, which represents 85% growth year-on-year.

Retirement Savings

Due to the announced termination of Pension Pillar 2, the number of participants in retirement savings schemes increased only by 1,323 to the total of 84.5 thousand individuals. The volume invested by the retirement fund participants reached the level of CZK 3.14 billion at the end of 2015.

Supplementary Pension Insurance and Supplementary Pension Savings

At the end of 2015, the participant assets in both the participating as well as the transformed funds in Pension Pillar 3 totalled CZK 349.5 billion, which represents 10.3% year-on-year increase. The number of participants in Pension Pillar 3 once again decreased, specifically by 160 thousand to 4.64 million individuals. The average monthly contribution made by participants in the supplementary pension insurance schemes slightly increased to CZK 589 while the average monthly contribution in the supplementary pension savings schemes remained at CZK 722, the same as in 2014. The share of contracts that include employer contributions grew slightly in 2015 to 19.4%. The total direct state support disbursed to participants in Pension Pillar 3 totalled CZK 6.8 billion.

Financial Market Legislation

In 2015, a new Act on Recovery and Resolution in the Financial Market was passes within the Czech legislation. In addition, deposit guarantee schemes regulation was novelized and the Act of Termination of Retirement Savings (i.e. Pension Pillar 2) was passed. At the European level, the high-priority topics included the legislative proposals associated with creation of the Capital Market Unions and the European Deposit Insurance Scheme. New Directives on Payment Services and Insurance Distribution were published.

1. MACROECONOMIC SITUATION AND EXTERNAL DEVELOPMENTS

1.1. Macroeconomic Situation[1]

In 2015, the Czech economy probably closed the negative production gap. The real gross domestic product (GDP) grew by 4.2%. Within the same time period, the real economic output measured in the gross value added (GVA) increased by 3.6%. Differences in the GDP and GVA growth speeds resulted from the growth of collected consumer taxes that was affected by a low comparison base in 2014. All the national economy fields contributed to the GVA increase with the manufacturing field having the biggest share. The Czech economy growth performance in 2015 significantly exceeded the EU, Eurozone, as well as USA average.

Table 1.1: GDP growth rates

Annual (in %)	2010	2011	2012	2013	2014	2015
Czech Republic	2.3	2.0	-0.9	-0.5	2.0	4.2
EU-28	2.1	1.8	-0.5	0.2	1.4	1.9
Eurozone (EA12)	2.1	1.6	-0.9	-0.3	0.9	1.6
USA	2.5	1.6	2.2	1.5	2.4	2.4

Source: Eurostat

The domestic demand played the dominant role in the GDP growth. During the year 2015, the GDP growth was supported by the gross capital formation and the final consumption expenditure of households, as well as the government. The investment growth was positively influenced by the drawdown of EU funds purchased weaponry, as well as liberalized monetary conditions and favourable sentiment of private companies. Growth of the household consumption was derived from growing disposable income, increased consumer trust, and the excellent situation on the labour market. In comparison with 2014, growth of the foreign market sales slowed down; however, it still remained fast paced. In 2015, from the expenses aspect, the net export contributed to the GDP growth in slightly negative way.

The economy growth resulted in job demands. The total employment rate increased by 1.4% where the number of employees increased by 2.2% and the number of entrepreneurs decreased by 2.3%. The manufacturing industry contributed to the increased number of employees in the most significant way. The economic activity extent within the 15-64 years segment increased by 0.5 p.p. to 74.0% year-on-year. Within the international comparison, the unemployment rate decreased by 1.1 p.p. in average to 5.1%, which continues to be one of the lowest in Europe. The growing job demand was accompanied by the average wage increase by 3.4%.

Table 1.2: Macroeconomic indicators

Indicator (in %)	2010	2011	2012	2013	2014	2015
Final consumption expenditure (change, in constant prices):	0.8	-0.7	-1.5	1.2	1.6	2.8
Household consumption (change, in constant prices)	1.0	0.3	-1.5	0.7	1.5	2.8
Government consumption (change, in constant prices)	0.4	-3.0	-1.8	2.3	1.8	2.8
Gross fixed capital formation (change, in constant prices)	1.3	1.1	-3.2	-2.7	2.0	7.3
Unemployment rate LFS (average for period)	7.3	6.7	7.0	7.0	6.1	5.1
Inflation (CPI, average for period)	1.5	1.9	3.3	1.4	0.4	0.3
Inflation in Eurozone (HICP, average for period)	1.6	2.7	2.5	1.3	0.4	0.0
Inflation in USA (HICP, average for period)	2.4	3.8	2.1	1.2	1.3	-0.7

Source: CSO, MLSA, Eurostat

The low 0.3% inflation was caused mainly by the external factors, especially by a marked crude oil price decrease and related decrease of producer prices within the Eurozone. The administrative measures affected the consumer price growth only slightly. The domestic economy has already reported certain pro-inflation pressure, even though the production gap probably closed. Despite that, the inflation remained deeply below the lower tolerance band of the CNB inflation target. Industrial producer prices significantly decreased as a result of the decreasing crude oil price. At the basic refinancing rate at the technical zero, CNB continued the

[1] On the basis of data published as of 31 March 2016.

mode of using the exchange rate as another monetary policy tool. To protect its one-sided exchange rate commitment, it had to directly intervene on the foreign exchange market in the second half of the year. The 3M PRIBOR rate remained at 0.3%, and the client interest rates slightly decreased. Revenues from the Czech government bonds fluctuated at extremely low values.

Table 1.3: Comparison of the development of inflation and key interest rate of central banks

2015	Inflation (year-on-year in %)[2]			Key interest rate of central bank (in %)[3]		
	Czech Republic	Eurozone	USA	Czech Republic	Eurozone	USA
January	0.1	-0.6	-0.1	0.05	0.05	0.00-0.25
February	0.1	-0.3	0.0	0.05	0.05	0.00-0.25
March	0.2	-0.1	-0.1	0.05	0.05	0.00-0.25
April	0.5	0.0	-0.2	0.05	0.05	0.00-0.25
May	0.7	0.3	0.0	0.05	0.05	0.00-0.25
June	0.8	0.2	0.1	0.05	0.05	0.00-0.25
July	0.5	0.2	0.2	0.05	0.05	0.00-0.25
August	0.3	0.1	0.2	0.05	0.05	0.00-0.25
September	0.4	-0.1	0.0	0.05	0.05	0.00-0.25
October	0.2	0.1	0.2	0.05	0.05	0.00-0.25
November	0.1	0.1	0.5	0.05	0.05	0.00-0.25
December	0.1	0.2	0.7	0.05	0.05	0.00-0.25

Source: CSO, CNB, Eurostat, ECB, Fed, OECD

In 2015, the Eurozone economy registered a slightly quicker growth of the real gross domestic product to 1.6%. The economic results were stimulated by the drop of crude oil prices and a weak Euro. However, the global economy uncertainties represented another added negative impact. The final consumption expenditure of households supported by the growth of disposable income represented the most important growth factor. The government consumption pace also quickened; in some countries, it was also a result of increased security precautions and expenses related to migration. The fixed capital formation contribution to the economic growth remained limited because of the less favourable global situation. The net export contribution to the growth was approximately zero. The economic recovery also started very slowly to become evident on the labour market, even though the economic growth was too slow to compensate the previous job losses. The Eurozone's 11.0% average unemployment rate remains a serious social problem, despite its decrease by 0.6 p.p. in comparison with the previous year. In 2015, the average price level had not changed in comparison with the previous year. As a reaction to the zero inflation that did not achieve the Central Bank's inflation rate even at the main 0.05% ECB reference rates, it further strengthened its monetary policy expansiveness utilizing non-traditional tools. In December 2015, it decreased the deposit rate all the way to -0.3% and expanded the asset purchase program. During 2015, as a result of different monetary policy setups, the exchange rate between the euro and the US dollar gradually and with slight fluctuations weakened from 1.23 USD/EUR in December 2014, to 1.09 USD/EUR in December 2015.

In 2015, the real GDP growth in the USA achieved 2.4% and, therefore, duplicated the 2014 value. Household consumption and fixed capital investments were the main growth contributors. The export was negatively influenced by the combined effect of stronger USD and deterioration of the external environment. In the domestic economy, the drop of energy prices provided a welcomed impulse for private consumption. However, on the other hand, it slowed down development of the new crude oil and natural gas utilization technologies. The favourable economic situation was reflected on the labour market where creation of new jobs accelerated, especially in the sector of services, which allowed for the unemployment rate decrease to 5% at the end of the year. Fed reacted to the American economy growth, good labour market condition, and core inflation growth in the mid-December 2015, by the first interest rate increase since 2007 by 0.25 p.p. to 0.25 to 0.50%. However, during the entire 2015, Fed continued to roll retained maturity-reaching bonds and to reinvest the collected principle payments from the agency debt instruments and mortgage-covered securities held by it.

[2] In the Czech Republic and the USA, measured according to the year-on-year growth in the CPI; in the Eurozone, expressed in terms of the year-on-year increase in the HICP.
[3] As of the first calendar day of the applicable month.

Table 1.4: External financial relations

Annual (CZK bn)	2010	2011	2012	2013	2014	2015
Balance of goods	40.4	75.5	123.8	167.0	219.5	210.7
Balance of goods to GDP (%, current prices)	1.0	1.9	3.1	4.1	5.2	4.7
Current account	-141.8	-84.8	-63.3	-21.8	7.5	41.4
Current account to GDP (%, current prices)	-3.6	-2.1	-1.6	-0.5	0.2	0.9
Capital account	37.6	12.7	53.0	82.4	32.3	106.1
Financial account	-122.3	-74.8	11.7	68.3	63.1	193.8

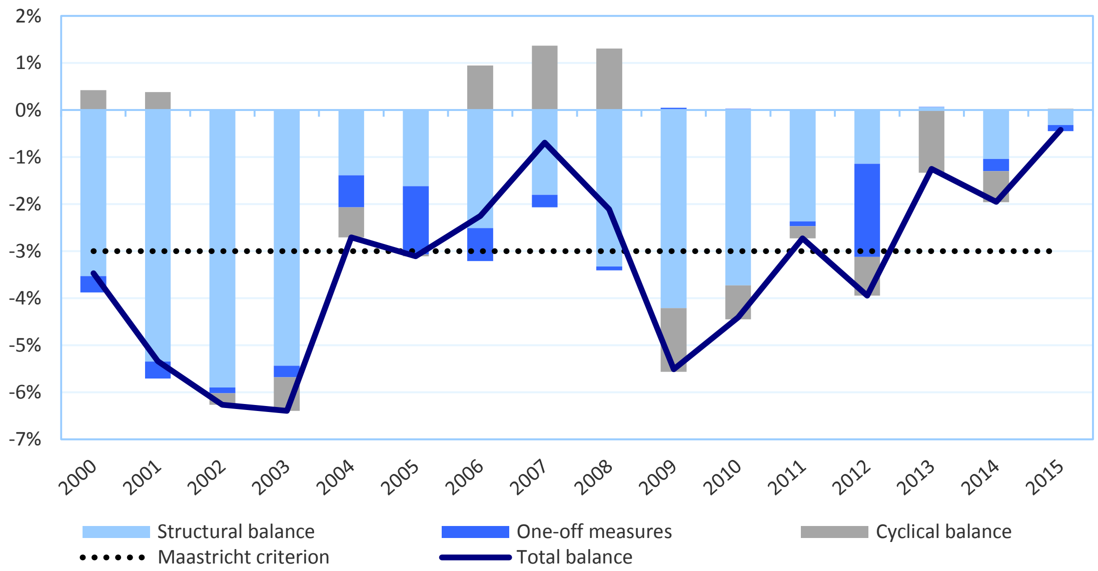
Source: CNB

In 2015, the external balance of the Czech Republic expressed by a ratio of the balance of current account payment to GDP achieved the positive value for the second time since 1993, namely 0.9%. Decrease of the primary income balance deficit had the major impact. The worsened goods balance surplus was more than compensated by the improved balance of services. The secondary income balance was almost even, which also represented a slight year-on-year improvement. The current account balance is in accordance with the Czech economy's development level, and it does not make a basis for risks of incurring macroeconomic imbalances. In 2015, the financial account reported the net financial resources outflow (net foreign loans) in the amount of CZK 193.8 billion. The direct outflow of resources was also reported for direct foreign investments where Czech investments to foreign countries exceeded the foreign investment into the Czech Republic by CZK 27 billion and achieved CZK 87 billion. While the profit reinvested into the domestic companies achieved CZK 105 billion, residents reinvested CZK 28 billion abroad. The financial derivate balance achieved the CZK 5 billion surplus. In comparison with 2014, there was a net inflow of financial resources in portfolio investments in 2015 that amounted to CZK 164 billion. That applied to optimization of the bank liability balances structure in connection with the newly established regulatory requirements (payment of contributions to the Resolution Fund). The CNB foreign exchange interventions to protect the exchange rate commitment (27 CZK/EUR) led to the reserved assets increase by CZK 351 billion.

1.2. Fiscal Situation

Based on the current data of the Czech Statistical Office, the 2015 government sector economy ended in a record-low deficit of CZK 18.7 billion, which corresponds with 0.4% GDP. The deficit decreased by 1.5 p.p. in the year-on-year comparison.

Graph 1.1: Development of the government deficit as a percentage of GDP



Source: MoF, CSO

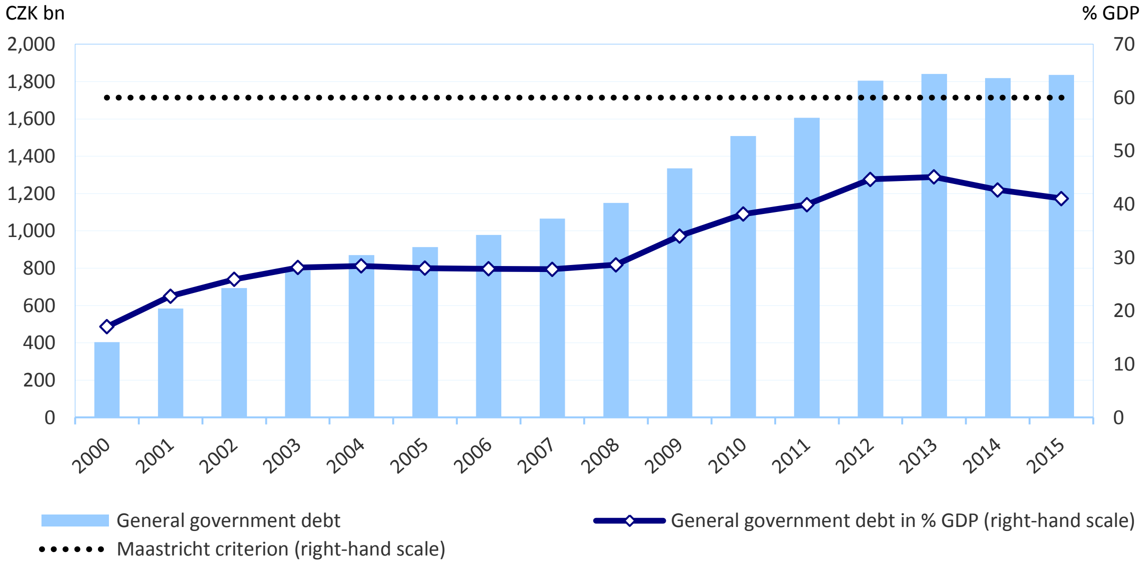
The low government sector deficit was caused by higher local budget economy surpluses (more than CZK 24 billion), which was partially caused by unrealized capital expenses of the Capital City of Prague (the provisional budget at the beginning of the year, land buyout delays, and longer tenders). The further balance improvements resulted from the extra income of the Deposit Insurance Fund, which is reported in the government institution sector[4] in the amount of approximately 0.1% GDP in relation to the bankruptcy proceedings and finished litigations.

Within the year-on-year comparison, the collection of taxes, social security and health insurance payments can be emphasized as very favourable. In 2015, the collection of social security payments exceeded the budgeted amount, and on the accrual basis, it exceeded the macroeconomic base growth in the form of the wage and salary volume. The indirect tax revenue grew by more than 9% due to collections of the value added tax, as well as consumption taxes. In respect to the value added tax, the original estimate was significantly exceeded despite the fact that the second decreased rate was established for medicines, books, and irreplaceable infant nutrition products from the beginning of the year. The direct taxes also reported the relatively solid growth (approximately by 4.3%), even though their dynamics was slowed down by discretion measures, such as the reestablishment of the tax credit for working retirees or support of multiple children families. The total tax and social security payment collection increased by more than CZK 95 billion, which created a sufficient room for the needed expense coverage. In addition to the aforementioned facts, there was the historically highest drawdown of the European funds (meaning: the drawdown of funds by the end recipient) since the Czech Republic joined the EU. On the income side, there was the increase of the EU accrued grant (the increased receivable from the EU) by more than 84%.

On the expense side, the EU projects' funding resulted, among other things, in high total investment expenses. That accelerated a robust investment activity with a significant pro-growth effect on GDP. Formation of the gross fixed capital of the government institution sector was also influenced by the financial leasing of the JAS-39 Gripen supersonic aircrafts. Another very positive development was derived from the record decrease of the government sector's interest expenses (by almost CZK 8 billion).

The general government consumption increased by 4.8% in connection with the regular expenses related to the drawdown of the old financial perspective, as well as growth of wages and salaries. Last but not least, the expense capital transfers were negatively influenced in 2015 by the returned tax from donated emission allowances in the amount of approximately CZK 4.5 billion. In the cash expression, a tax return decreases the collected property tax; however, in the accrual methodology based on the ESA 2010 Standard, it is posted as the capital transfer.

Graph 1.2: Development of government debt



Source: MoF, CSO

[4] Within the April notification of deficit and debt of government institutions in 2015 for 2014, the Czech-Moravian Guarantee and Development Bank, the Export Guarantee and Insurance Corporation, and the Deposit Insurance Fund were included into the government sector. Revision of the factors already published by the Czech Statistical Office regarding the deficit and debt in 2011 to 2013 was executed in the downward direction.

In 2015, the government sector debt reached 41.1% of GDP. Therefore, the indebtedness in connection with GDP has decreased for the second year. The primary reason rests in the state debt's almost constant time-development. The record-low state bonds revenues along the whole revenue curve are the result mainly of the surplus of free liquidity on the interbank market because of easing of the monetary policy by the CNB and ECB and also because of the time-limited mode of the one-sided exchange rate commitment (for more information on the state bonds' low interest rates, see Chapter 6 – Capital Market or the MoF' publication: The Czech Republic Government Debt Management Annual Report 2015). The debt share level is in a safe distance from the debt criterion defined in the Stability and Growth Pact, as well as below the proposal limit of the approved national debt regulation. From the aspect of the government sector debt's financial instruments structure, debt securities represent the biggest share (mainly the mid-term and long-term state bonds). Their volume grew by CZK 25.3 billion year-on-year (relatively by 1.6%) to CZK 1,648.3 billion. On the other hand, the debt that consists of the currency and deposits decreased (by CZK 4.6 billion) and loans decreased by CZK 3.6 billion.

Table 1.5: Government debt according to the financial instruments

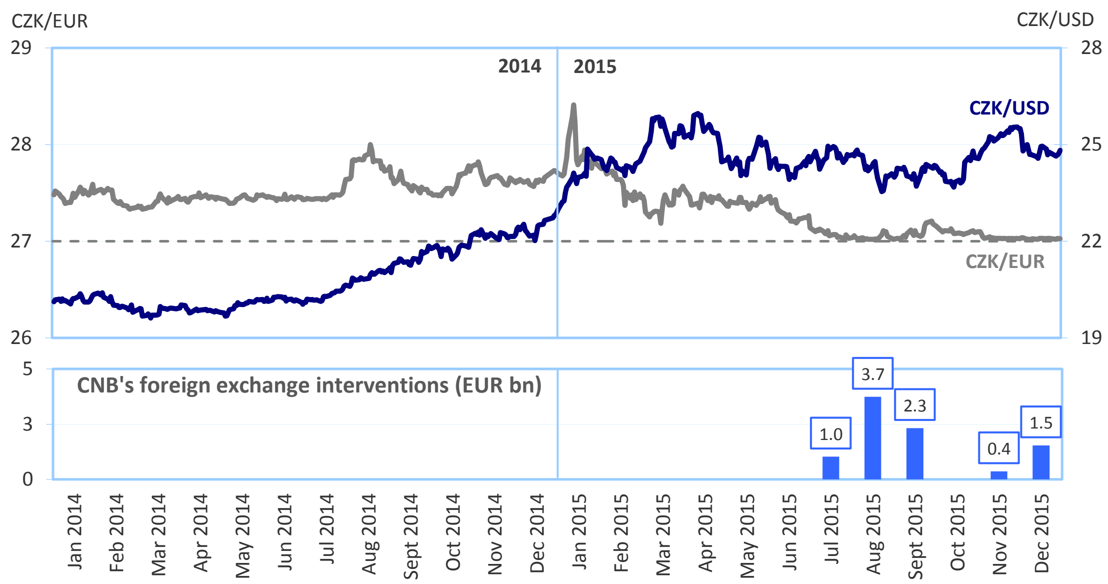
As at 31 Dec (CZK bn)	2010	2011	2012	2013	2014	2015	Year-on-year change (%)
General government debt	1,508.5	1,606.5	1,805.4	1,840.4	1,819.1	1,836.2	0.9
Currency and deposits	6.0	3.3	8.4	6.8	10.0	5.3	-46.4
Debt securities	1,321.9	1,408.2	1,603.5	1,639.1	1,623.0	1,648.3	1.6
Loans	180.7	195.0	193.5	194.5	186.2	182.6	-1.9

Source: MoF, CSO

1.3. Foreign Exchange Market

During 2015, the CNB repeatedly confirmed its one-sided exchange rate commitment that was adopted on 7 November 2013. This exchange rate commitment resulted in occasional direct and indirect (or verbal) currency interventions with the objective to prevent strengthening of the Czech crown below the level of 27 CZK/EUR. Therefore, the exchange rate fluctuated approximately within the 27.0 to 28.4 CZK/EUR range for the whole year, with the exchange rate being influenced by the global events at the beginning of the first half of the year – especially by releasing the exchange rate commitment of the Swiss franc and the Eurozone situation. During the second half of 2015, the 27 CZK/EUR range limit was closely approached and the CNB was forced to carry out intervention in the cumulative amount of EUR 9 billion (approximately CZK 243 billion).

Graph 1.3: CZK exchange rates relative to major currencies



Source: CNB

The Czech crown and US dollar exchange rate experienced significant growth where the Czech crown significantly weakened against the US dollar, especially because of the quantitative easing carried out by the European Central Bank and different performances of the American and European, i.e. Czech, economies. A weaker euro, much like the weaker crown, should help to increase the competitiveness of European companies in comparison to other states (primarily the USA, Japan, and China). At the same time, similarly as in case of the Czech crown, the weaker euro should help to dampen deflation, which was also supported by low crude oil and crude oil products prices that has continued since 2014.

Table 1.6: CZK exchange rates relative to major and regional currencies at the end of the year

Exchange rate as at the end of		2010	2011	2012	2013	2014	2015	Year-on-year change (%)
Euro	(CZK/EUR)	25.1	25.8	25.1	27.4	27.7	27.0	-2.5
United States dollar	(CZK/USD)	18.8	19.9	19.1	19.9	22.8	24.8	8.7
Hungarian forint	(CZK/100 HUF)	9.0	8.2	8.6	9.2	8.8	8.6	-2.6
Polish zloty	(CZK/PLN)	6.3	5.8	6.2	6.6	6.5	6.3	-2.3
British pound	(CZK/GBP)	29.1	30.9	30.8	32.9	35.6	36.8	3.5
Chinese yuan	(CZK/CNY)	2.8	3.2	3.1	3.3	3.7	3.8	3.9
Japanese yen	(CZK/100 JPY)	23.1	25.8	22.1	19.0	19.1	20.6	8.0
Russian ruble	(CZK/100 RUB)	61.3	61.8	62.5	60.5	38.3	33.5	-12.5

Source: CNB

Changes against the regional currencies (see Table 1.6) were not as dramatic as the Czech crown's weakening against the US dollar. Crown strengthened against Polish zloty by 2.3% to 6.3 CZK/PLN and against Hungarian forint by 2.6% to 8.6 CZK/100 HUF. Conversely, there was a different development in relation to the important world reserve currencies where the Czech crown weakened against the British pound and Japanese yen by 3.5% and 8% respectively. At the same time, it is not possible to leave out the significant import and export partners' currencies where the Czech crown depreciated against the Chinese renminbi by 3.9% to the total exchange rate value of 3.8 CZK/CNY at the end of the year. Conversely, the Czech crown significantly appreciated against the Russian ruble by 12.5% to 33.5 CZK/100 RUB at the end of 2015.

Table 1.7: Average CZK exchange rates relative to major and regional currencies

Average exchange rate		2010	2011	2012	2013	2014	2015	Year-on-year change (%)
Euro	(CZK/EUR)	25.3	24.6	25.1	26.0	27.5	27.3	-0.9
United States dollar	(CZK/USD)	19.1	17.7	19.6	19.6	20.7	24.6	18.6
Hungarian forint	(CZK/100 HUF)	9.2	8.8	8.7	8.7	8.9	8.8	-1.3
Polish zloty	(CZK/PLN)	6.3	6.0	6.0	6.2	6.6	6.5	-0.9
British pound	(CZK/GBP)	29.5	28.3	31.0	30.6	34.2	37.6	10.0
Chinese yuan	(CZK/CNY)	2.8	2.7	3.1	3.2	3.4	3.9	16.3
Japanese yen	(CZK/100 JPY)	21.8	22.2	24.6	20.1	19.6	20.3	3.5
Russian ruble	(CZK/100 RUB)	62.9	60.2	63.0	61.4	54.9	40.6	-26.1

Source: CNB

From the aspect of the average exchange rate as the indicator that considers the development across the whole year 2015 (see Table 1.7), there was a significant depreciation of the Czech crown against the US dollar by 18.6%, against the Chinese renminbi by 16.3%, and against the British pound by 10%. Conversely, the Czech crown strengthened in average against the Russian ruble by approximately 26.1%. Changes related to the Japanese yen and other monitored European currencies, i.e. the Hungarian forint and Polish zloty, were minuscule and fluctuated below approximately 4%.

With regard to the statement of Bank Board of March 2016, that the CNB will not discontinue the use of the exchange rate as a tool of easing the monetary policy conditions before 2017, it is not possible to expect significant changes in the CZK/EUR currency pair. Conversely, the Czech crown and US dollar exchange rate has a further growth potential because of a stable economic growth of the USA and the quantitative easing within the Eurozone, which could significantly affect the exchange rate of Czech crown against the main world currencies via the indirect influence of the European single currency.

2. FUNDS AVAILABLE IN THE FINANCIAL MARKET

The volume of funds available in the financial market[5] has been increasing over the long-term; however, annual growth exceeding 10% from 2004 to 2007 have been replaced by the approximately half the growth pace (4 to 6%) since 2008. During 2015, the volume of funds grew by CZK 191.0 billion (4.1%) to approximately CZK 4.8 trillion.

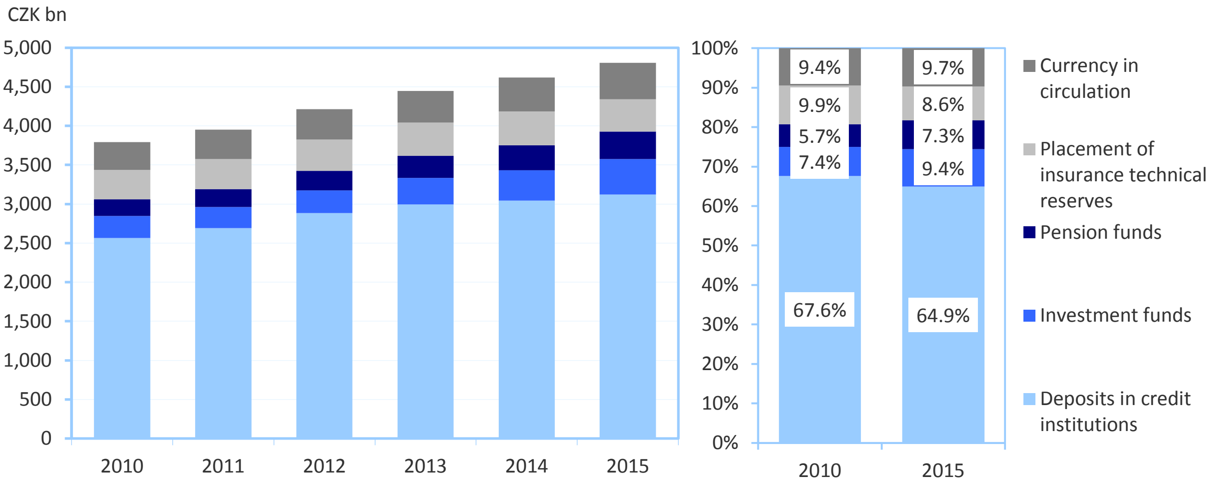
Table 2.1: Funds available in the financial market

As at 31 Dec (CZK bn)	2010	2011	2012	2013	2014	2015	Year-on-year change	
							Abs.	(%)
Deposits in credit institutions[6]	2,563.5	2,690.0	2,883.9	2,995.8	3,041.5	3,122.1	80.6	2.7
of which: building savings schemes	430.1	433.4	435.0	429.1	413.6	384.2	-29.4	-7.1
Investments funds	281.5	270.2	291.8	339.9	392.2	453.8	61.7	15.7
Pension funds	216.1	232.1	246.6	282.3	318.6	352.6	33.9	10.6
Placement of insurance technical reserves	373.7	381.2	403.1	424.1	431.6	411.6	-20.1	-4.7
Currency in circulation	357.5	377.9	388.9	405.4	432.2	467.1	34.9	8.1
Total	3,792.3	3,951.3	4,214.4	4,447.6	4,616.1	4,807.1	191.0	4.1

Source: AKAT, APS CR, CNB – ARAD, MoF

In comparison with 2014, the biggest growth of the absolute level of funds during 2015 did not occur in the investment funds category (in the collective investment funds and the qualified investors funds), but it occurred for the largest volume item, i.e. the credit institution deposit, as in 2010 to 2013. Despite that, funds allocated into investment funds registered another highest relative growth, even though it was not as high as in 2014. Therefore, the fact that the investment funds within the current very low interest rate environment enable participants to achieve higher revenues on the financial market continues manifesting. Very low rates probably also caused a higher relative annual growth in the amount of currency in circulation in comparison with 2014. The relatively significant year-on-year percentage growth was also registered by resources allocated in funds within Pension Pillar 2 and 3. Conversely, the volume of funds allocated into the insurance companies' technical reserves and the amount saved within the building savings schemes decreased in 2015.

Graph 2.1: Funds available in the financial market



Source: AKAT, APS CR, CNB – ARAD, MoF

Note: The right side of the graph shows the differences in structure between 2010 and 2015.

[5] This aggregate indicator is one of the ways used to express the size of the financial market by focusing on the intermediary financial market. It includes the monetary resources of individuals and legal entities that are allocated in the financial market through the financial products offered by credit institutions, insurance companies, pension management companies (previously the pension funds), and collective investment instruments, as well as currency in circulation. It does not include direct investments in securities.

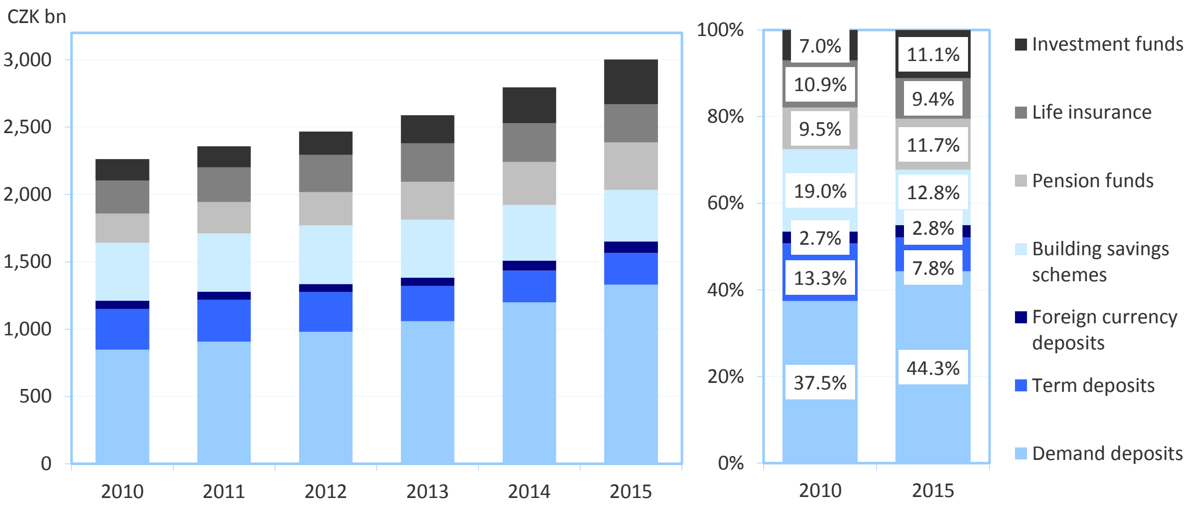
[6] Includes the Czech crown deposits of clients (residents and non-residents) in banks (including building savings banks), branches of foreign banks, and credit unions, but not including the CNB.

The fund volume development within the individual categories in 2010 to 2015 indicates the following tendencies. The right side of Graph 2.1 clearly demonstrates growth of the share of funds allocated to the pension funds (from 5.7% to 7.3%) and to the investment funds (from 7.4% to 9.4%). Conversely, the credit institution deposit decreased (by 2.7 p.p.). However, it decreased more dramatically only during 2014 and 2015 because it used to be stable at approximately 68% level during the previous years. During the monitored period, the share of currency in circulation fluctuated between 9.1% and 9.7%, and the allocation share of the insurance companies' technical reserves in the total funds kept slightly decreasing every year since 2010 all the way to 8.6% in 2015.

3. STRUCTURE OF HOUSEHOLD SAVINGS

The total volume of household savings kept in products offered on the intermediary financial market[7] has been gradually increasing over the past several years. Year of 2015 was no exception since they grew year-on-year by 7.4% and achieved the total volume of CZK 3.0 trillion.

Graph 3.1: Structure of household savings



Source: APS CR, CNB – ARAD, MoF

Note: The right side of the graph shows the differences in structure between 2010 and 2015.

In 2015, just as in the previous year, there were no significant changes (up to 2.0 p.p.) in the individual products' representation in the household savings structure. Demand deposits, that have been registering a long-term growth every year, were the product that achieved the highest absolute growth (CZK 132 billion) in 2015. Conversely, for the fourth year in the row, there was a noticeable outflow of resources in term deposits. The item that is also losing its importance in the long-term are savings kept in building savings accounts. There was the year-on-year drop of their share in the total savings by 2.0 p.p., and during the 2010 to 2015 their share decreased even by 6.2 p.p. The reason rests in the building savings' decreasing attractiveness (for more information, see Chapter 5.8). In 2015, there was another increase of deposit shares in foreign currencies; however, in comparison with 2014, it had a lower intensity. Even though representation of the banks' products (deposits at banks and building savings banks) in the overall savings structure has decreased since 2010 by 4.8 p.p., households keep holding the majority of their savings in such products – approximately 68%.

Once again, the household savings allocated to investment funds significantly year-on-year grew by CZK 65.5 billion (by 24.5%), which represents growth that exceeded the growth of 2014 by CZK 8.6 billion. Even though there has been the apparent and strengthening trend to transfer savings into the collective investment tools since 2012, which manifested in the growth of share of household funds allocated to the investment funds in the overall savings structure by approximately 4.5 p.p. to 11.1%, this share still has not achieved its pre-crisis level of 2007 (12.6%).

The share of household savings allocated to funds within Pension Pillar 2 and 3 increased by 0.3 p.p. within 2015. Within the five-year horizon, this segment has permanently grown in importance with 11.7% of household savings were allocated in it by the end of 2015. The share of insurance companies as administrators of household savings in the case of reserve-making life insurance products decreased year-on-year by 0.9 p.p., and in comparison with 2014, the life insurance savings volume slightly decreased even in the absolute terms. In the long-term horizon, the life insurance products' share in the household savings has decreased with a growing intensity since 2012.

A more detailed analysis of the individual sectors is provided in Chapters 5 to 8.

[7] Includes household savings that are allocated in the financial market through the financial products offered by banks, insurance companies, pension management companies, and investment firms. The direct investments made by households in securities, commodities, and real estate are not monitored.

4. INSTITUTIONAL ASPECTS OF THE FINANCIAL MARKET

4.1. Financial Market Entities

During 2015, the majority of the financial market sectors experienced only small year-on-year changes in the number of entities. These changes have not represented significant deviations that would change the Czech financial market's structure. Especially within the most important sectors, i.e. banks and insurance companies, new entities interested in entering the industry need for their successful operation especially adequate capital, which is the prerequisite of building the necessary material and human resources base. The administratively relatively simpler way to enter the domestic financial market faster or to solidify or strengthen a position on it (e.g. by increasing the market share) rests in a takeover or purchase of an already existing entity or its part via a merger or acquisition. This trend is illustrated by permissions recently issued by the CNB to, for example, the Raiffeisenbank for takeover of the retail parts of the Citibank, the Allianz insurance company for the acquisition with a part of the Wüstenrot group – life and non-life insurance, or for a merger of the ČP Invest investiční společnost with an asset managing company - the Generali Investments CEE. The merger of the companies that belong to the Generali financial group resulted in the biggest investment company operating on the Czech capital market.

The development of numbers of entities on the Czech financial market during the last six years is illustrated in the following overview.

Table 4.1: Numbers of entities providing services in the financial market

As at 31 Dec	2010	2011	2012	2013	2014	2015
Credit institutions						
Banks	41	44	43	44	45	46
of which: foreign banks branches	19	21	20	21	22	23
of which: building savings banks	5	5	5	5	5	5
Credit unions	14	14	13	12	11	11
Capital market						
Securities dealers and branches of foreign securities dealers	53	58	61	64	58	62
Investment funds having legal personality	47	58	77	88	83	91
Investment companies	23	21	21	24	26	28
Mutual funds	150	157	165	176	191	195
Qualified investment funds	33	40	48	56	53	55
Collective investment funds	117	117	117	120	138	140
of which: standard	37	37	40	41	50	53
of which: special	80	80	77	79	88	87
Investment intermediaries	9,051	10,070	8,810	7,670	7,554	7,464
Tied agents[8]	11,251	14,730	20,045	25,821	26,056	26,659
Pension funds / companies	10	9	9	10	9	8
Insurance						
Insurance companies	53	54	53	52	53	55
of which: branches of foreign insurance companies	17	18	18	18	20	23
Reinsurance companies	1	1	1	1	1	1
Insurance intermediaries	115,713	137,486	147,971	156,217	163,204	169,024

Source: CNB – JERRS, ARAD

Within the banking sector, the CNB newly authorized operation of the Bank of China (Hungary) branch, which is one of the biggest continental China banks as for it international representation network (branches in

[8] Excluding tied agents of pension management companies.

38 countries). The Czech branch received a permission to operate in July 2015; however, it announced that it would commence its services for the public during 2016. In 2015, the BNP Paribas Personal Finance SA branch of the French bank entered the domestic banking market via a merger with its non-bank subsidiary company, Cetelem. Conversely, the MEINL BANK Aktiengesellschaft, branch of an Austrian private bank left the Czech market. Also, in relation to the frequent political activities in favour of developing the economic cooperation with China, several other Chinese banks expressed their interest to operate on the Czech financial market.

Slight increases of the numbers of majority of entities on the capital market suggest that this market is undergoing a recovery after the global financial crisis.

The area of the intermediaries of investment services continues its trend that was initiated by the legislative change where an amendment of the Act on Capital Market Undertakings in 2011 redefined the categories of intermediaries. The level 2 investment intermediaries became tied agents registered in the register. Therefore, the number of the investment intermediaries has decreased since 2012 and, on the other hand, the number of tied agents grew.

As for the pension management companies, there was only a small change where the separate companies for the Pension Pillar 3 of the Conseq group mutually merged into a single pension management company Conseq penzijní společnost.

The number of entities within the insurance companies sector increased by the PRVNÍ KLUBOVÁ Insurance Company that introduced a non-traditional concept based on the so-called peer-to-peer insurance[9] that is dominated by capital by the RSJ investment group. The MetLife insurance company transformed into the branch form with independent life and non-life insurance branches; also, the Colonnade Insurance branch that belongs to the Canadian Fairfax Financial Holdings commenced its operation on the market as the new entity, and it took over all insurance activities of the QBE Group within the Central and Eastern Europe. Conversely, D.A.S. pojišťovna právní ochrany, a.s. terminated its operation in 2015. However, D.A.S. Rechtsschutz AG, the Czech Republic branch, continues to operate on the market.

The entities that operate on the Czech financial market within the freedom to provide services under the so-called single European passport add and expand financial products that are offered by entities licenced from the domestic authorities. Within the credit institutions and insurance companies sector their numbers have grown every year; however, in case of investment companies and funds, there was a tendency towards an overall stagnation during the monitored period. However, during the last two years, there was an apparent growth of the number of investment funds as well. As these entities do not have reporting obligations towards the CNB, the exact scope of their activities cannot be determined. However, based on some partial findings, it is possible to infer that their offer of products and services is usually not aimed at the broad retail client base and is generally very specialised for only a specific market segment. Although the extent of their activities is limited in a certain way, these entities are considered to be an integral component of the financial market in the Czech Republic, which helps to increase its competitiveness and contributes towards a wider and more comprehensive product offer.

The development of numbers of entities operating in the Czech financial under the single European passport during the last six years is illustrated in the following overview (see Table 4.2).

Table 4.2: Number of entities operating in the Czech Republic under the single European passport

As at 31 Dec	2010	2011	2012	2013	2014	2015
Credit institutions	290	302	329	337	353	385
Insurance companies	665	695	714	743	789	824
Investment funds	1,315	1,214	1,157	1,165	1,268	1,340
Investment companies	46	47	46	45	47	46

Source: CNB – JERRS

[9] The concept is based on the mutual connections between policyholders who put the collected premiums to the common fund. They may receive a part of the insurance company's profit as a benefit from it. This concept emphasizes responsibility of the insured parties, and the group members must have the same insurance type.

4.2. Guarantee Schemes

The financial market of the Czech Republic includes two guarantee systems that enhance protection of savers or investors and indirectly also of the financial institutions and consequently the whole market by protecting them from negative consequences of insolvency of any of the participating entities. In the basic aspects, both the systems are harmonized within the whole EU.

In 2015, the deposit insurance was provided by the Deposit Insurance Fund (DIF). The DIF has the prevention function for credit institutions (it decreases a risk of the public's panic deposit withdrawals from the credit institutions) and the rescue function for depositors. If the CNB announces that a credit institution participating in the DIF is unable to meet its obligations, the DIF will pay 100% of deposits to all the eligible individuals and entities, including the respective interest, up to the CZK equivalent of EUR 100,000.[10] The disbursement of funds must start within twenty business days of the date the announcement is published. Beginning on 1 June 2016, this period is 7 business days only. All deposit liabilities are insured, including the interest payments in the Czech or foreign currency to depositors who met the identification requirements, payments registered as credit balances on accounts or deposit books or evidenced by a certificate of deposit, deposit slip or other comparable document. Currently, deposits are reimbursed on behalf of the Metropolitní spořitelní družstvo (until 27 January 2017) and the WPB Capital, spořitelní družstvo (until 14 October 2017). In both the cases, Česká spořitelna is the paying bank.

By the end of 2015, banks contributed to the DIF 0.04% of the average volume of the insured liabilities from deposits, including interest for the respective calendar quarter. Building savings banks contributed a half rate. Due to the higher risk, rate of contributions of credit unions were increased to a double in comparison with banks effective January 2015.[11] During 2015, DIF paid out approximately CZK 235 million, and at the end of the year, the DIF financial reserves amounted to CZK 28.8 billion.

In 2016, a risk-weighted contribution system was established for banks and credit unions. Payments of institutions that are mandatorily participating in the deposit insurance systems must newly take into account the extent of the institution's bankruptcy risk. A new Financial Market Guarantee System, which is the complex system of protection of depositors and support of the financial market stability, was established in the Czech Republic in January 2016. DIF forms its part. In addition, the guarantee system also covers the newly created Resolution Fund.

The Securities Traders Guarantee Fund (STGF) is a system that compensates the clients of securities dealers who are not able to meet their obligations towards clients. The STGF therefore does not cover the risk of the loss of value of investments in securities. The client will receive the reimbursement of 90 % calculated in accordance with the respective provisions of the Capital Market Undertakings Act; however, the amount must not exceed the Czech crown equivalent of EUR 20,000 and must be paid within 3 months from verification of the claim.

As with the DIF, the main source of STGF assets consists of the contributions made by the involved players, i.e. securities dealers and investment companies that manage client assets. With regard to the fact that the covered client assets remain (contrary to DIF covered deposits) with the dealer only for a relatively short period of time, but repeatedly, the annual contribution amount is stipulated as 2% from the volume of received fees and commissions for investment services provided during the previous year. In 2015, STGF collected contributions from 42 entities amounting to CZK 147.2 million. At the end of 2015, the volume of funds in the STGF amounted to CZK 872.5 million. Nevertheless, the fund's net position is negative because it includes the commitment to pay off repayable financial assistance from the state budget in the amount of CZK 1.1 billion received in the past. The volume of reimbursements paid in 2015 amounted to CZK 0.6 million.

4.3. Financial Arbitrator

The financial arbitrator (FA) was established in 2003 to decide some disputes of consumers or entrepreneurs derived from the payment system; however, it has gradually transformed to an extrajudicial authority that

[10] Since 1 January 2016, the temporarily high deposits (exceeding EUR 100,000) derived as income in specific life situations, such as the sales of private residential real estate property, divorce compensations, collections of indemnity for an injury, illness, disability, or death, inheritance, one-time pension payments, job termination severance payments, or compensation of damages caused by crime are newly insured as well.

[11] Modified by the amendment to Act No 87/1995 Coll., on credit unions.

resolves disputes between consumers and financial institutions across the whole financial market. In 2015, the FA was authorized to resolve disputes between financial institutions and their clients, especially consumers, derived from provided payment services, offered, intermediated, or provided consumer loans, collective investments, offered, provided, or intermediated life insurance, or exchange office trade.

The FA proceeding is free of charge and initiated by a claimant. The legally binding ruling of the FA is enforceable through the courts in accordance with the Code of Civil Procedure. If the parties to the proceedings do not agree with the FA's ruling, it is possible to bring an action against the FA's ruling with the aim of obtaining a court decision to replace it.

In 2015, FA received 962 proceeding claims and the total of received and processed inquiries from the public reached three thousand. Year-on-year, the number of initiated proceedings increased by 35%. The most frequent subjects of the disputes or processed inquiries were life insurance and consumer loans.

In more than two thirds of processed disputes, parties of the dispute achieved reconciliation with the FA's active help. As for the court review of the ruling, institutions submitted less than ten FA rulings to the courts. The already completed reviews tend to support the FA's decision.

In its Collections of Rulings, the FA makes its crucial rulings available on its website in the full wording (without identification of claimants). The objective of the Collection of Rulings rests in foreseeability of the financial arbitrator's verdicts.

Tasks related to the financial arbitrator's professional, organizational, and technical support are carried out by the Office of the Financial Arbitrator.

4.4. Economic Results and Number of Employees of Financial Institutions

In 2015, there was a year-on-year growth of profits before tax across the financial market's sub-sectors (see Table 4.3). However, the rate of growth was different. The highest absolute, as well as relative, growth was achieved by insurance companies that increased their year-on-year profit before tax by CZK 5.1 billion (i.e. 58.9%) to CZK 13.8 billion. The second relatively fastest growing segment were the pension management companies whose profit increased by CZK 0.3 billion (i.e. 47.5%) to CZK 0.8 billion. As for the absolute profit amount, the banking sector was the most important (CZK 80.9 billion). This sector registered the second highest profit growth (by CZK 4.8 billion). However, its profit relatively grew at the slowest pace (by 6.3%). Investment companies and non-bank securities dealers both increased their profit by CZK 0.1 billion (by 10.5% and 6.7% respectively).

Table 4.3: Profit/loss of financial institutions before tax

As at 31 Dec (CZK bn)	2010	2011	2012	2013	2014	2015	Year-on-year change	
							Abs.	(%)
Banks	65.6	63.4	76.7	73.3	76.1	80.9	4.8	6.3
Non-bank securities dealers (incl. foreign branches)	1.7	0.7	0.7	1.1	0.9	1.0	0.1	6.7
Insurance companies	24.5	11.4	15.0	13.2	8.7	13.8	5.1	58.9
Pension management companies	-	-	-	-0.3	0.5	0.8	0.3	47.5
Investment companies	0.3	0.3	0.4	0.6	0.7	0.8	0.1	10.5

Source: CNB – ARAD

During 2015, the financial market employed on average 71 thousand employees, which is by 0.3% more than in 2014. The highest absolute growth of employees (417) was experienced by the non-bank financial institutions. Growth is apparent for bank financial institutions as well. Conversely, the average number of employees decreased at financial leasing companies, pension funds and companies, and also insurance companies.

Table 4.4: Average headcount of financial institutions

Average	2010	2011	2012	2013	2014	2015	Year-on-year change	
							Abs.	(%)
Banking financial institutions	38,124	39,124	39,923	39,375	39,105	39,216	111	0.3
Non-bank financial institutions[12]	14,320	13,855	14,251	14,598	15,272	15,689	417	2.7
Financial leasing companies	2,638	2,586	2,457	2,277	2,064	2,020	-44	-2.1
Pension funds / companies	446	470	529	629	550	521	-29	-5.3
Insurance companies	14,270	14,260	14,464	14,213	13,993	13,768	-225	-1.6
Total	69,798	70,295	71,624	71,092	70,984	71,214	230	0.3

Source: CSO

[12] The Czech Statistical Office includes credit unions, holdings, investment companies, investment funds, leasing companies, pawn shops, non-bank loan providers, exchange offices, bank brokers, factoring companies, securities dealers, investment advisors and brokers, and insurance agents and brokers in this indicator.

5. CREDIT INSTITUTIONS AND OTHER PROVIDERS OF ASSET FINANCING

This chapter primarily focuses on credit institutions, e.g. banks (the majority of sections), including building savings banks (Section 5.8) and credit unions (Section 5.9). Individual topics are also covered, such as interest rates (Section 5.4) and deposits and loans (Section 5.5). The final part of the chapter (Section 5.10) deals primarily with the developments in the segment of non-bank financing providers. The sub-sector covered in the last section of this chapter offers products that are fairly close substitutes for bank loans and, if they are offered to retail clients, contribute towards the indicator of overall household indebtedness.

Due to the importance of households as the key client segment, a separate section (5.6) is devoted to development of their indebtedness to bank, as well as non-bank, financing providers, as reported by the CNB.

5.1. Stability of the Banking Sector

Looking back at 2015, it is possible to say that the banking sector in the Czech Republic achieved the overall stable results as in the previous years. Economic recovery contributed to the improvement of some indicators more than during the previous years. That was apparent within the credit activity and in the tendency for an improvement of credit portfolio quality within the key segments (including households and non-financial companies), as well as in the sector's increased overall profitability. In addition to that, influence of the long-term factors that contributed to the sector's overall stability since the so-called global financial crisis after 2008 and the Eurozone instability persisted. They include the overall high and growing rate of capital adequacy of the sector as a whole, a long-term low dependence on funding from the interbank market and related high share of coverage of client loans by client deposits, a significant share of retail loans insured by property liens, and a relatively low share of client loans provided in foreign currencies, especially to households.

In 2015, the capital adequacy indicator of the banking sector as a whole continued to grow as in the previous years. However, in the long-term, its value has remained considerably above the basic regulatory requirements.[13] At the end of 2015, the total capital ratio reached 18.4% (0.4 p.p. year-on-year growth). The Czech banking sector as a whole expanded the capital buffer, which could be used to cover unexpected future losses. A slight year-on-year decrease of the total capital ratio level was registered by the banking sector only once during the last six years (at the end of 2011 by 0.2 p.p.). Nevertheless, within a longer horizon, it is possible to observe its significant and sustained growth. When comparing this indicator's value of 2015 with its value during the so-called global financial crisis (in the first quarter of 2008), it grew approximately by half (by more than 6 p.p.). At that time, the capital ratio was 12.2%. However, in general, growth of the capital ratio or capital adequacy can be caused not only by a growing capital volume (Tier 1 capital grew year-on-year by more than 6%), but also by a decrease of the total volume of risk exposures. Therefore, their setting is important as well.

There are certain differences in the amount of the total capital ratio across the group of banks as they are subdivided by the CNB based on their sizes and orientations. The indicator's value for the segment of so-called big banks was fluctuating the nearest to the values of the sector as a whole (18.1%) because of the sector’s relative weight. The segment of so-called small banks tends to achieve below-average values (15.8%) and the segment of the medium-size banks above-average values of the whole sector (19.8%). Building savings banks report a slightly below-average value (17.7%). However, a different capital ratio indicator's value does not always illustrate the future stability since every segment can be affected by different risks in a various intensity in the future. At the same time, it is necessary to emphasize that individual entities within the respective segments can report different values for this indicator.

The banking sector's resilience to possible negative shocks has been repeatedly confirmed by stress tests regularly performed by the CNB. According to the results published on 18 December 2015 (based on data from the end of the 3rd quarter of 2015), the capital ratio of the whole sector would remain above the 8% regulatory

[13] The minimal regulatory requirement has traditionally been at a level of 8% TREA (total risk exposure amount). This was, however, updated to reflect the current version of the Capital Requirements Regulation and Directive, and additional capital requirements were introduced. In particular, this concerns the capital conservation buffer of 2.5% TREA, which has been in effect since July 2014 and applies to the entire sector. In addition, in November 2014, the CNB implemented an additional reserve in the case of the largest banks to cover systemic risk (i.e. a systemic risk buffer) of up to 3% TREA. The capital adequacy indicator value that must be met by a specific institution may therefore be higher.

minimum even in the case of realization of a rather theoretical and less probable unfavourable negative stress scenario, which assumes a big decline of the economic activity in the Czech Republic and abroad. In such a case, the sector's capital adequacy would drop below 12% and the total of nine banks (approximately 15% of the sector's assets) would not be meeting the minimum requirement for the overall capital ratio (8%). For evening up the capital adequacy of all the banks with their domicile in the Czech Republic (i.e. without the foreign banks' branches) to the 8% regulatory minimum, banks would have to increase the regulatory capital approximately by CZK 10 billion (i.e. approximately 0.2% GDP) at the end of the test period (in the context of a rather theoretical negative scenario). According to the CNB, such a volume would not significantly jeopardize stability of the sector as a whole because of its size.

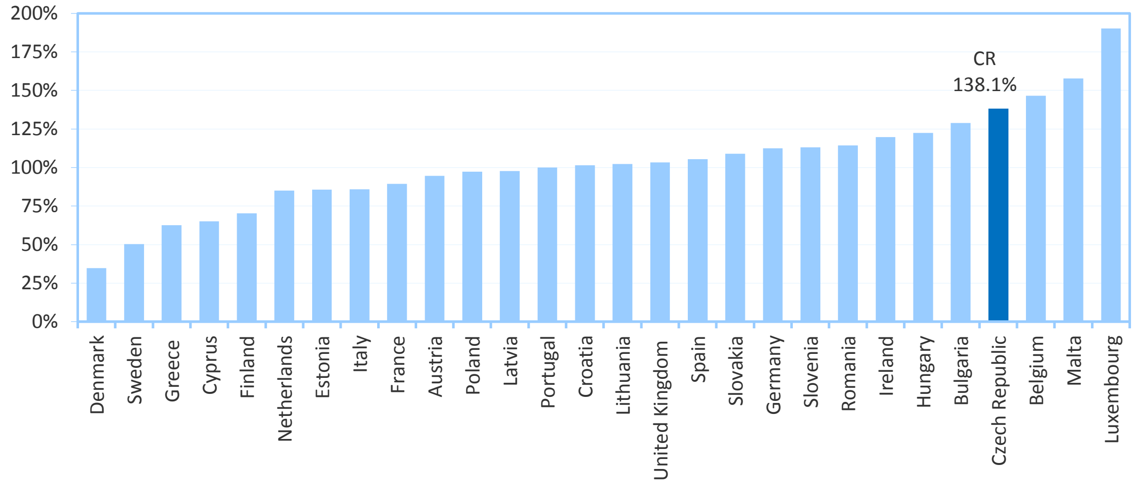
However, in the light of the current optimistic economic development and continuous overall stability of the banking sector, it is appropriate to bring-up the concept of the so-called financial stability paradox. It points out the risk of a higher tendency of individual entities to take more risk during the higher stability of financial markets. Therefore, it is a paradox, but a period of prevailing financial stability can lead to increased vulnerability and imbalances that usually materialize later; nevertheless, that could cause financial destabilization later. That is why it could be advisable to react to these potential risks in advance during a period when the system appears quite stable. The CNB recently repeatedly mentioned in its statements sovereign bond exposures by the banking sector and provision of mortgage loans in the context of the real estate price developments.[14]

The stability of financing and the overall high liquidity of the sector as a whole are in general also supported by its relatively lower dependence on financing from the interbank market. Banks in the Czech Republic have been obtaining the majority of their funding through client deposits for a long time. At the same time, it generally applies that, during periods of acute liquidity problems, difficulties have first appeared in the interbank market within which financial institutions lend to each other. Conversely, once a liquidity crisis sets-off and if the public's trust in the deposit insurance system is unaffected, client deposits usually represent a more reliable and stable financing resource. The monitored indicator of the deposits to loans ratio (see Graph 5.1) is quite stable in the long-term in the Czech Republic, and at the end of 2015, it would reach 138.1% (4.9 p.p. decrease).[15] Therefore, the indicator for the Czech Republic was approximately at the 2009 levels. This ratio provides evidence that, in the Czech Republic, the volume of deposits banks receive from their clients are significantly higher than the loans they provided to them. From this perspective, the Czech banking sector is one of the most resilient to risk in the entire EU. In addition to the Czech Republic, Belgium, Malta, and Luxembourg report the highest indicator values. Conversely, the least favourable long-term values of this indicator are posted by, for example, Denmark and Sweden where loans aggressively grew in the past without the corresponding increase in the clients' bank deposits. From the aspect of the year-on-year development, Greece reported the fastest deterioration (by 15.1 p.p.). For a lot of countries, this indicator's improvement in 2015 represented a continuous development similar to the previous year. The deposits to loans ratio usually grows faster in those countries where the banking sector had to undergo some form of recovery or transformation in connection with the so-called global financial crisis after 2008, the Eurozone debt crisis, or other difficulties. That applies, for example, to Hungary (by 19.0 p.p.), Ireland (by 16.4 p.p.), Slovenia (by 8.8 p.p.), Croatia (by 6.3 p.p.), Romania (by 6.0 p.p.), Latvia (by 5.9 p.p.), Portugal (by 4.5 p.p.), or Italy (by 3.8 p.p.).

[14] For example, the presentation of the Vice-Governor, Vladimír Tomšík, of 21 October 2015, titled "The Macro-Prudential Policy and its Performance in the CNB" (in Czech „Makroobezřetnostní politika a její výkon v ČNB").

[15] The international comparison uses the data published by the ECB specifying the volume of loans and deposits for monetary financial institutions (excluding the ESCB – European System of Central Banks) for the category of all non-financial institutions (including central governments). The figure for the Czech Republic is generally different from that published by the CNB in its analyses. One of the reasons for this difference is because the volume of deposits and loans used for calculating the ratio indicator does not include all deposits and loans. In the case of euro area member states, deposits and loans vis-a-vis entities from Eurozone are included. In the case of the other EU member states, deposits and loans vis-a-vis domestic entities are included. The value of the indicator according to the data from the CNB - ARAD is usually lower. At the end of 2015 the ratio of client deposits to client loans exceeded 125%.

Graph 5.1: Client bank deposits to loans ratio in 2015 in EU member states



Source: ECB, MoF calculations

However, it is difficult to find the universal interpretation and unambiguous explanation of the deposits to loans ratio development across the countries. Its value's increase can be caused not only by a favourable deposit volume growth, but also by a loan volume decrease caused by, for example, a limited ability of banks to provide loans or by uncertainty on the financial markets or in the real economy. In such a case, a rising value of this ratio might not represent a favourable signal. Another interpretation problem is derived from the need to set the indicator into the broader context of the financial market's product structure and the savings distribution structure in the respective country; for example, if the majority of residents' retirement savings in a certain country was managed within the non-banking segments of the financial market to the detriment of the bank deposits. Although these funds could ultimately be included in the banks' balance sheets (and thus in the aforementioned indicator), they would only be partially reflected in, for example, the deposits made by retirement savings managers (e.g. pension funds and life insurance companies). In addition, from the perspective of the stability of the banks' financing, these sources cannot be equated with the more diversified retail deposits. Institutional deposits are related to a lower amount of depositing entities and, therefore, they can be more volatile in general.

However, the majority of the aforementioned facts that could weaken the indicator's predicative ability largely do not apply in the Czech Republic since the indicator's high value was not achieved because of a credit crunch resulting from uncertainty on the financial markets or problems within the banks. To the contrary, the banking sector was able to utilize in the long-term a significant volume of household deposits for their financing since households allocate the majority of their savings into banks (see Chapter 3). The share of household deposits in the total client deposits in banks has stayed within 50-60% in the long-term.

Last but not least, it is necessary to realize that the deposits to loans ratio evaluates the banking sector as a whole, which does not mean that some banks cannot report a significantly lower value of coverage of loans by client deposits and, therefore, they are more vulnerable because of this aspect. At the same time, it is not possible to evaluate the total deposits to loans ratio only; however, it must be interpreted within the context of the significant growth of demand deposits during the recent years.[16] The financing of bank assets thus became more dependent on using financing sources which tended to have a decreasing maturity.

5.2. Banking Sector Assets

The total volume of banking sector assets, including building savings banks, reported by the end of 2015 approximately CZK 5.5 trillion.[17,18] In comparison with 2014, the growth dynamics were maintained since the

[16] More detailed information is provided in Chapter 3 – Structure of Household Savings, and Chapter 5.5 – Client Bank Deposits and Loans.

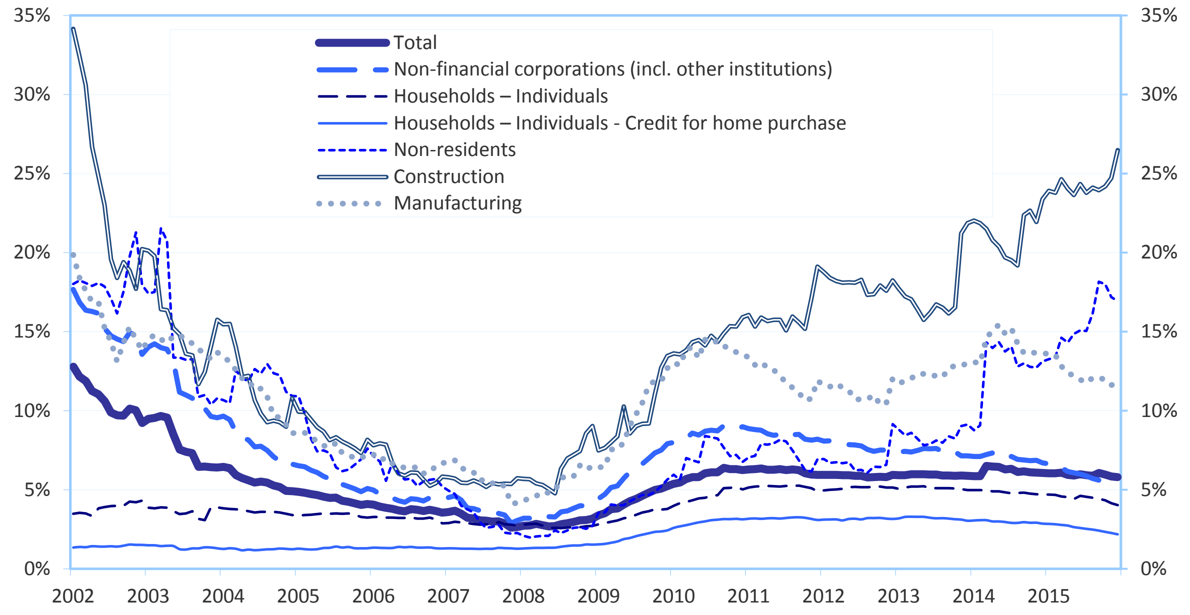
[17] According to the CNB-provided information, banks carried out balance structure optimization in connection with the newly effective regulatory requirements (related to the Crisis Resolution Fund) at the end of 2015. This fact affected development of some balance sheet items, as well as the total balance amount.

[18] These values that were published within the CNB's ARAD time series database differ from figures published by the CNB, for example, within the "Report on the Supervision" due to a different methodology. These differences can manifest, for example, within the indicators on the share of non-performing loans.

sector's balance sum increased again by 3% in 2015 (by 3.6% in 2014). Conversely, the rate of growth of receivables from clients increased (5.6% increase in comparison with 4.8% increase in 2014). That can imply another acceleration of the credit activity. At the same time, when monitoring the bank activity development, the fact that some client segments can finance using their own resources or other resources, such as bonds issuance, cannot be overlooked.

The quality of the banking sector assets as a whole, monitored on the basis of the share of non-performing loans, has essentially not changed since the end of 2010. The values of this indicator, reported at the end of the year, were during the entire period always at a level of approximately 6.0%. The ratio of the non-performing client loans to the total client loans (provided to residents and non-residents) decreased year-on-year to 5.8% (by 0.3 p.p.) at the end of 2015.

Graph 5.2: Share of non-performing loans



Source: CNB – ARAD, MoF calculations

Some differences (such as in the quality of the loan portfolio and the level of provisioning) may be observed across the individual segments of banks classified by their asset volume. Graph 5.2 shows the quality of the loan portfolios, which is the most important factor due to the focus of the domestic banking sector on the provision of loans. In 2015, there was a favourable development in case of both the important debtor segments, i.e. non-financial companies and households (individuals). The share of non-performing loans provided to non-financial companies decreased to 5.7% (by 1.0 p.p. year-on-year) and therefore, it reached the lowest value in 2015 since May 2009. As for households (population), the share of non-performing loans decreased to 4.0% (by 0.7 p.p.). Of that, the share of non-performing mortgage loans provided to households (individuals) for home purchase also decreased by 0.7 p.p. to 2.2%. Quality of loans provided to non-residents developed conversely. In their case, it was possible to observe a staggering year-on-year increase of the non-performing loan share (by 3.8 p.p.) to high 16.9%, just as during 2014. However, the MoF does not have any specific information on the particular causes of this development; nevertheless, the geographically-specific nature of this segment and the related aspects of the further risk management by respective banks can represent one of them.

Overall, it is possible to say that despite the slight decrease tendency, the share of non-performing loans at the end of the monitored period remained twofold in comparison with relative short period of time in 2007 and 2008. At that time, the value of this indicator fluctuated below 3% for a short period during certain months. However, year 2015 is a part of a period of economic recovery, which should contribute to an improvement of the portfolio quality of already provided loans. Therefore, the relatively slow process of decline of non-performing loans share implies that causes of certain loans' low quality are long-term or that their sensitivity to the current economic development improvement is limited or lagged. Despite that, the indicator currently fluctuated at much lower values in comparison with the banking sector's situation in 2002 when the sector faced a lot of problems and this indicator was commonly significantly exceeding 10%.

The overall decrease of the non-performing loans share favourably affected development of their partial structure. A ratio of the specific category of so-called doubtful and loss loans to the total loans decreased from 4.2 to 3.6%.

Data for the specific entity groups based on their economic activity area can in some cases better illustrate specific development tendencies of the loan portfolio quality development. That is why the Graph 5.2 illustrates two partial segments from the category of non-financing companies. Within the manufacturing industry, the share of non-performing loans decreased by 1.9 p.p. to 11.7%. The last time the loans provided within this sector reached such low levels of the share of non-performing loans was in 2012. Conversely, the construction sector continued in its tendency towards worsening of loans quality. Therefore, in this case, the share of non-performing loans grew by 3.1 p.p. to 26.5%. Nevertheless, for several reasons, this development cannot be used as a base for the firm conclusions. On one hand, the volume of loans provided to these segments forms only a part of loans to non-financial companies (loans provided to the manufacturing industry amounted to CZK 245 billion and to CZK 42 billion as for the building industry) under situation when the share of non-performing loans provided to non-financial companies had an overall tendency to decline in both 2014 and 2015. In addition to that, development of the quality of provided loans does not illustrate development of the respective economic sector; it mainly illustrates the situation of that part of companies from the respective sector, which accepted a higher volume of loans in the past, and not the current status of the respective sector as a whole. Last but not least, it is necessary to emphasize that the volume of non-performing loans in the construction sector did not increase year-on-year, but it actually slightly decreased. Therefore, growth of the non-performing loans share as the relative indicator can be related to a decrease of the overall volume of this category of loans.

As for the problems potentially caused by the exchange rate developments, it is necessary to monitor loans denominated in foreign currencies. As in the previous years, share of foreign currency loans on total loans did not significantly change in 2015 and remained relatively low (more information is provided in the text below). This long-term situation continues to have positive implications with regard to the resilience of debtors against shocks resulting from exchange rate fluctuations, and, consequently on the functioning of the real economy and the stability of the financial sector.

With regard to a low share of foreign currency loans, changes of the domestic currency's exchange rate do not directly affect loan payment amounts because they do not need to be converted using the exchange rate of the domestic currency, in which debtors (especially households) generate their income, from which they repay these loans. Even if the domestic currency depreciates, the loan payments for loans denominated in the domestic currency do not increase nor is the ability of borrowers to repay impaired, and there is, therefore, no decrease in the quality of bank assets. Before 2013, the ratio of foreign currency loans provided to non-financial companies fluctuated around 20%. However, at the end of 2014 and 2015, these values were higher – 22.8% equally in both the years. However, in the case of export companies, the cash flow used to pay these loans in often generated from the export income in foreign currencies, which significantly decreases the exchange rate risk.

Overall, the ratio of foreign currency loans to the total loans reached 18.7% (year-on-year growth less than 0.1 p.p.). However, this value was increased by a high share of foreign currency loans to already mentioned non-financial companies and also to financial institutions (30.0%) and non-residents (79.8%). In 2013, the conversion effect related to the Central Bank's commitment to devalue the domestic currency might have contributed to the growth of foreign currency loans (as a result of the development of the exchange rate). As for households (individuals), the share of bank loans in foreign currencies is in the long-term lower than 2 tenths of a percent and, therefore, essentially irrelevant. Therefore, the Czech banking sector's situation differs in this aspect from the situation in a lot of other Central and Eastern European countries[19] where the share of the total foreign currency loans, as well as household foreign currency loans, is higher.

[19] According to data provided in the graph in the ESRB publication (Risk Dashboard, March 2016 – data as of the end of 2015), the share of the foreign currency loans on the total loans provided to "residents" (it approximately corresponds with the domestic entities without so-called monetary financial institutions and the government) was more than 60% in Croatia, approximately one half in Romania and Bulgaria, more than one quarter in Poland, and more than one fifth in Hungary. Conversely, this indicator's value for the Czech Republic was lower and only slightly exceeded 10%.

5.3. Economic Results of the Banking Sector

The banking sector's profit before tax in 2015 reached CZK 80.9 billion (see Table 5.1). That represents 6.3% growth. The banking sector's profit was the highest for the monitored period.

Development of the net interest revenues contributed to the profitability growth only slightly (0.5% growth). The growth was almost ten times higher in the previous year. Year-on-year, the interest revenues decreased (by 5.0% to CZK 150.8 billion) and the pace of the interest expense decrease was even bigger (by 17.6% to CZK 39.9 billion). Therefore, this gradual process continues and the decreasing level of the monetary policy rates (and their expected development) is becoming apparent in the interest applied to bank assets, as well as liabilities, i.e. in the interest revenues and expenses.

On the other hand, the net revenues from fees and commissions decreased (by 4.8%) to CZK 34.3 billion. This development has continued for 5 years. However, the pace of the decline increased almost twofold in comparison with the situation one year ago. Both the growth of expenses in this area, as well as drop of revenues (both by approximately 3%), contributed to this development in 2015. The long-term trend of decrease of (gross) revenues from fees and commissions has continued since 2011 (with the exception of 2013). There was a slightly negative impact on the profit development by administrative costs, which slightly grew year-on-year to CZK 70.8 billion (by 0.8%). Conversely, development of so called other items (listed as the item deducted from the profit) had a favourable impact on the overall profitability, as it decreased year-on-year by CZK 6.6 billion. There were a number of partial developments involved in the change of this item. There was a negative impact of decreased gains from exchange differences and increased losses from impairment. Conversely, there was a positive impact of growing dividend income and also of increased gains on financial assets and liabilities held for trading and on derecognition of financial assets and liabilities not measured at the fair value through profit or loss.

Table 5.1: Selected items from the profit and loss accounts of the banking sector

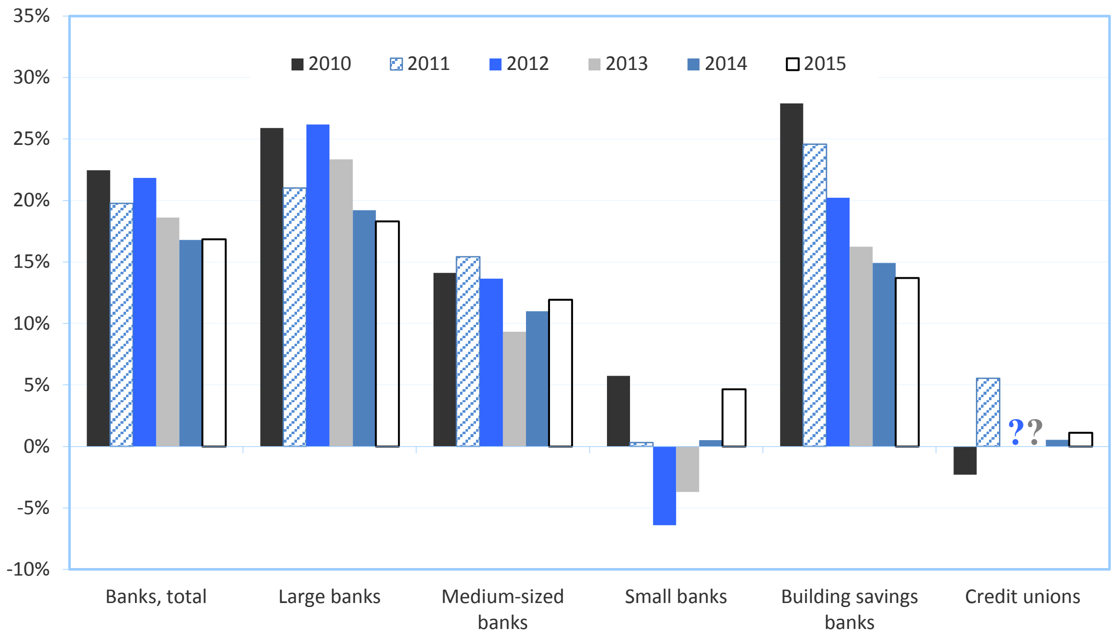
Item (in billion CZK or %)	2010	2011	2012	2013	2014	2015	Year-on-year change (%)
Total profit or loss before tax from continuing operations	157.4	162.1	167.2	168.2	168.0	174.8	4.1
Net interest income	105.3	109.9	107.9	105.5	110.4	110.9	0.5
Interest income	167	172.3	170.4	154.8	158.9	150.8	-5.0
Interest expenses	61.7	62.4	62.5	49.3	48.4	39.9	-17.6
Net fee and commission income	38.5	39.1	37.3	37.1	36.1	34.3	-4.8
Fee and commission income	48.4	50.0	49.2	49.9	49.0	47.6	-2.8
Fee and commission expenses	9.9	10.9	11.9	12.8	12.9	13.3	2.7
Administration costs	62.4	66.1	66.6	65.8	70.2	70.8	0.8
Other costs	15.8	19.4	1.9	3.4	-0.1	-6.5	-
Total profit or loss before tax from continuing operations	**65.6**	**63.4**	**76.7**	**73.3**	**76.1**	**80.9**	**6.3**
Ratio of net interest income and net fee and commission income	2.7	2.8	2.9	2.8	3.1	3.2	5.5
Ratio of net interest income and total profit or loss before tax from continuing operations	66.9%	67.8%	64.6%	62.7%	65.8%	63.5%	-3.5
Ratio of net fee and commission income and total profit or loss before tax from continuing operations	24.5%	24.1%	22.3%	22.0%	21.5%	19.6%	-8.5

Source: CNB, MoF calculations

The ratio indicators in the lower section of Table 5.1 are listed here because they allow for a better or different illustration of the relative significance of certain items that generate the sector's profit. The ratio of the net interest revenues to the net fee and commission revenues in 2015 exceeded the 3.2 multiple for the first time during the monitored period. This growth trend is continuing across the whole monitored period. The crucial importance of the net interest revenues can be also illustrated in relation to the indicator of profit derived from the financial and operational activities, which was 63.5% (decreased by 3.5% or 2.3 p.p.). In comparison, the contribution made by the net income from fees and commissions to the profit from financial and operating activities reached a level of only 19.6%. Decrease of both the ratio indicators illustrates the fact that items other than the net interest revenues and the net revenues from fees and commissions were contributing more and more to the year-on-year growth of the profit from the financial and operational activities.

The banking sector as a whole registered return on Tier 1 capital at 16.8% (a year-on-year growth by 0.1 p.p.). The tendency for decrease in the previous years stopped – in 2009, this value was higher by 10 p.p. (27.0%). Decrease of this ratio indicator's value can be caused by the increased denominator (the long-term increase of Tier 1 capital), as well as by the decreased numerator (profitability), e.g. the net interest margin. The net interest margin on assets was 1.9%, even though at the end of both 2010 and 2011 it was 2.5%. As illustrated in Graph 5.3, in the long-term, results achieved by the sector's specific groups of the credit institutions differ. Traditionally, the highest profitability (18.3%) was registered by the segment of so-called big banks[20]. Its profitability slightly decreased year-on-year (by 0.9 p.p.); however, it has decreased by 7.9 p.p. since 2012. The rate of profitability decrease of building savings banks was similar as in the previous year (by 1.2 p.p.). This bank group's profitability has decreased by 14.9 p.p. since 2010. At that time, building savings banks were the most profitable part of the banking sector, but now, on the contrary, their relative profitability is below average (13.7%). As for the small and mid-size banks group, the growth of profitability from the previous year, or two years, continued (by 1.0 and 4.1 p.p. respectively), and it reached 11.9% and 4.6% respectively. Therefore, the small banks sector has had a positive profitability for the second time since 2012. For the sake of comparison, the graph includes the profitability of the credit union sector, which achieved a level of 1.1%.[21]

Graph 5.3: Profit (loss) after taxation/Tier 1 capital (%)



Source: CNB – ARAD

5.4. Interest Rate Development

The development in market interest rates is affected primarily by the CNB's setting of interest rates and the effects of its monetary policies. During 2012, the Central Bank carried out three cuts of the key 2W repo rate (gradually from 0.75% to 0.05%). During 2013, the CNB could no longer utilize similar cuts of the monetary

[20] According to the CNB, division of banks based on a balance sheet total is since 2012 as follows: large banks – balance sheet total greater than CZK 250 billion; medium-sized banks – balance sheet total of CZK 50-250 billion; and small banks – balance sheet total of less than CZK 50 billion.

[21] For 2012 and 2013, the CNB does not specify the profitability of credit unions since according to the CNB, during these years, the predicative ability of data from the individual profit and loss statements is affected by different fiscal periods of individual entities within the credit union sector.

policy interest rates because the interest rates closely approached the zero bound, i.e. the so-called technical zero (unless the bank wanted to utilize negative rates).

In the fall of 2013, the CNB decided to set the so-called exchange rate commitment whose objective has been in devaluation of the domestic currency and keeping the exchange rate at a certain level. The declared effort of the Central Bank to keep the exchange rate between the domestic currency and euro near the specified level (or not to allow its strengthening below this level) can indirectly affect financial markets, especially as for the expectations of the monetary policy interest rates. It is generally expected that the central bank will not increase the monetary policy rates during the time that the exchange rate commitment remains in effect. As a result, within the context of the CNB's public statements, these rates may possibly remain at their historically lowest level in the Czech Republic for a longer time period. An overview of the CNB rates is provided in Table 5.2. Within the monitored period, there was one decrease during 2010 and three in 2012. After that, the setting of the individual CNB rates has not changed and, therefore, the spreads between the rates have not changed either.

Table 5.2: CNB interest rates

(%)	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
2W repo	0.75	0.75	0.05	0.05	0.05	0.05
Discount	0.25	0.25	0.05	0.05	0.05	0.05
Lombard	1.75	1.75	0.25	0.25	0.25	0.25

Source: CNB – ARAD

A number of key central banks in the whole world also practice very expansionary monetary policies. However, its nature and used instruments differ. The ECB has not changed its monetary policy rate for refinancing operations in 2015. However, at the beginning of December, it lowered the deposit facility rate from -0.3% to -0.4%. It also announced another expansion of its asset purchase program. In 2015, the Bank of England continued to keep its basic interest rate at 0.5% and the volume of purchased assets at GBP 375 billion. During 2015, the Bank of Japan did not change its interest rates and kept them at 0.1%; at the same time, it kept the volume of the asset purchase program unchanged at 80 trillion Japanese yen annually. Conversely, the U.S. Fed made its stance more restrictive in 2015 and increased the existing range of its key monetary policy rate by 0.25 p.p. in December. Therefore, the new range is from 0.25 to 0.5%. Further monetary policy restriction can be however hampered by the possible negative implications of the recent monetary policy tightening affecting the American economy.

An overview of the average client interest rates in the Czech Republic in the individual years (Table 5.3) illustrates their gradual continuous decrease in the case of client deposits, as well as loans. In the case of deposits, it is still apparent that there are lower interest rates on deposits made by non-financial companies than on deposits made by households. The absolute spread between the deposit interest rates of both the segments decreased year-on-year from 0.5 to 0.4 p.p. Since both the rates decreased year-on-year, the average interest rate applied to the household deposits was for the first time during the monitored period more than three times higher than interest rates applied to deposits of non-financial companies (0.65% vs. 0.19%). A different sensitivity of the deposit interest rates applied to these two client segments to the overall decrease of interest rates in the economy continues to be apparent. While households experienced a gradual rate decrease during the whole monitored six-year period to approximately one half, the rate of non-financial companies dropped to one third.

The average interest rate applied to household loans decreased during the year as well. In 2015, there was a decrease in the interest rates applied to the household loans for residential real estate (by 0.4 p.p.) to 3.5% and consumer loans by 0.6 p.p. to 13.9%. The average interest rate on loans provided to non-financial companies also reported a decrease, specifically by 0.2 p.p. to 2.8%. Overall, the year-on-year decrease expressed in the absolute terms was either the same, or in the case of household consumer loans, higher in 2015. Relatively, the pace of decline increased even more because due to the continuous decrease of interest rates, the comparison base, from which the rates continued to decrease in the following year, was lower. Similarly to deposits, loans also display an apparent higher relative change of interest rates for the segment of non-financial companies than for households during the monitored period (see Table 5.3).

Table 5.3: Average interest rate[22]

Average (in %)		2010	2011	2012	2013	2014	2015
Deposits	households and small entrepreneurs	1.3	1.2	1.2	1.0	0.8	0.6
	non-financial businesses	0.6	0.5	0.6	0.4	0.3	0.2
Loans	to households and small entrepreneurs	7.0	6.8	6.5	6.0	5.6	5.1
	for consumption	14.3	14.6	14.5	14.6	14.5	13.9
	for residential real estate	5.3	5.1	4.8	4.3	3.9	3.5
	to non-financial businesses	4.1	3.9	3.7	3.2	3.0	2.8

Source: CNB – ARAD, MoF calculations

In the case of loans provided to households, it is advisable to monitor a more comprehensive indicator that includes the other costs associated with the loan (i.e. the annual percentage rate of charge, or APR) in addition to the interest rate (which is used as the basic measurement of the cost of the loan).[23]

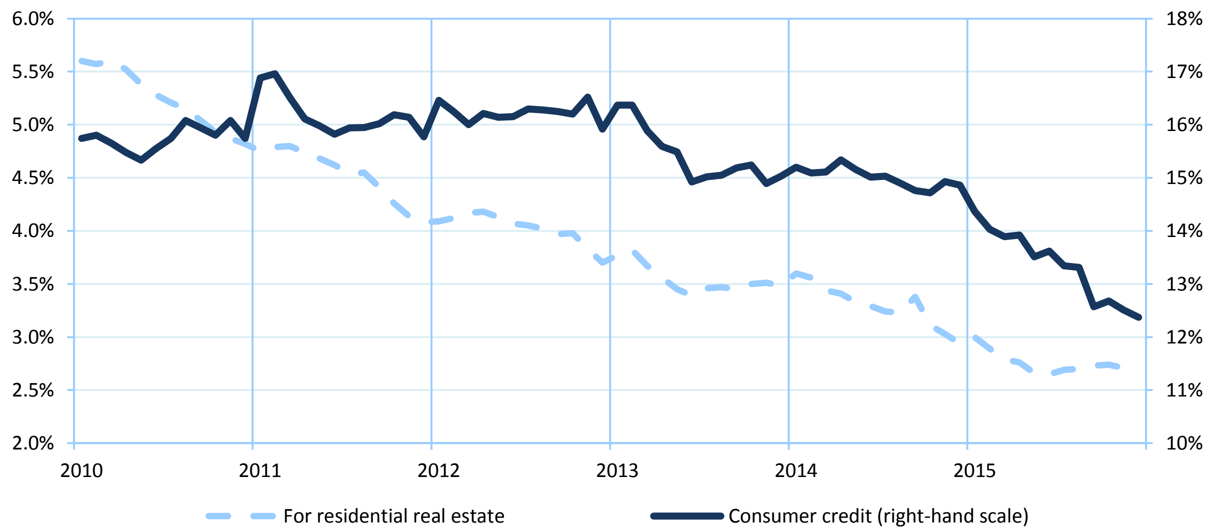
During 2015, the APR rate applied to newly provided consumer loans registered a significant drop in comparison with the previous years (see Table 5.4 and Graph 5.4). In December 2014, it reached 14.9%, and one year later, only 12.4% (decreased by 2.5 p.p.). The APR applied to loans for residential property purchases also decreased, but only by a smaller value (0.3 p.p.) to 2.7%. The cost of loans for residential real estate is thus at a historically low level as banks in the mutually competitive market continue to respond to the central bank interest rates' setting and to the developments in the financial market in the real economy.

Table 5.4: APR (Annual Percentage Rate) of CZK loans provided by banks

New loans, 2015 (%)	January	February	March	April	May	June	July	August	September	October	November	December
For consumption	14.4	14.0	13.9	13.9	13.5	13.6	13.3	13.3	12.6	12.7	12.5	12.4
For residential property purchases	3.0	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7

Source: CNB – ARAD

Graph 5.4: APR (Annual Percentage Rate) of CZK loans provided by banks



Source: CNB – ARAD

[22] This data applies to deposits and loans in CZK.

[23] The APR (annual percentage rate of charge) represents the percentage of the amount due that the client must pay over the period of one year in addition to the amortisation of the loan amount, specifically in relation to fees, loan administration, and other costs associated with using the loan. The APR referred to is the APR on loans provided by Czech banks in Czech crowns (new transactions).

5.5. Client Bank Deposits and Loans

In 2015, the volume of client deposits[24] reached CZK 3.52 trillion (2.5% growth) and loans CZK 2.78 trillion (5.6% growth) – see Table 5.5. Compared to the year-on-year change the last year, the dynamics have not significantly changed.[25] It slightly grew for loans (by 0.8 p.p.) and, conversely, the growth in the case of deposits slightly slowed down (0.4 p.p. growth).

The household deposits grew with the similar pace as in the previous year (by 5.8%). The deposits made by households thus reflected the growth in the volume of resources that could otherwise be allocated in other financial market segments or used for purchasing other assets or for consumption. However, at the same time it also applies that the volume of household savings allocated in pension funds and investment funds also grew at a faster tempo (by 10.6% and 24.5%, respectively).

Deposits of the non-financial companies increased their growth rate. Year-on-year, they grew almost by 10%, and during the five-year period by 45.6%. The increase in this category of deposits may basically be interpreted in the same way as in the case of the household segment. That is to say, expressed aggregately it may be an indication that companies are increasing the volume of funds that they could otherwise use for investments in the real economy.

From the perspective of the absolute change of amount, deposits grew the most, as during the last year, within the household segment (by CZK 111.6 billion), followed by non-financial companies (by CZK 83.3 billion). Conversely, the biggest drop was experienced by the government institutions deposits (by CZK 125.0 billion). Therefore, households further increased their share of more than a half of the total deposits. Their share on the total deposits amounted to CZK 2.0 trillion of CZK 3.5 trillion, i.e. 57.8%. Non-financial companies, with a deposit volume of CZK 921.6 trillion (26.2% of all deposits), remained the second most significant depositor segment. As for the deposit development dynamics, non-financial companies (by 9.9%) and non-residents (by 7.0%) were the fastest growing segments in 2015. Similarly as in 2014, the volume of the government institutions deposits registered a significant drop (by 36.8% to CZK 214.3 billion). Deposits of financial and non-profit institutions slightly increased (by 2.4% and 3.6% respectively).

From the perspective of the development in the structure of deposits according to their withdrawal date, the trend from the previous years continued and there was an increase in the deposits kept in demand accounts (a growth of 11.1%) and a decrease in term deposits (by 17.2%). For this reason, the share of demand deposits experienced another aggressive growth by 5.8 p.p. to 75.5% of total client deposits.[26] However, only seven years ago, this indicator was mere 52.8%. This is a continuation of a long-term trend in the decrease in the share of term-accounts.

Over the past few years, as a result of the volume of loans they obtain for housing, households also top the list of borrowers and are not only the most significant depositors. The volume of bank loans provided to households increased its growth pace to 7.6%, and contrary to the previous year, it grew faster than the volume of deposits (by 5.8%). Loans provided to households reached CZK 1.32 trillion, which represents 47.5% of all the client bank loans (0.9 p.p. year-on-year growth).

The volume of loans received by the non-financial companies grew, as in the previous year, more slowly than in the case of households (by 5.3% to CZK 920.9 billion). Despite that, there is an apparent activity pick-up since the growth rate in the previous year was less than 1%. As for the year-on-year dynamics, the volume of loans provided to government institutions and non-residents slightly decreased. In addition to households and non-financial companies, the significant year-on-year growth was also experienced by the financial institutions sector (by 6.7%, CZK 10 billion). The non-profit institutions sector was the fastest growing one (by 14.5%); however, considering its size, it grew only by CZK 0.3 billion. An alternative perspective of the structure and development of loans by their type (i.e. not sector) is provided in Table A2.1 in Appendix 2.

[24] This data does not include deposits or loans against the central banks or other credit institutions.

[25] As of 31 December 2015, there was a significant month-on-month decrease of the residential deposits by the total of CZK 149 billion and the non-residential deposits by CZK 9 billion. This significant change resulted especially from a decrease of residential deposits in the government institutions sector by CZK 179 billion.

[26] This issue as it relates to households is also addressed in Graph 3.1. However, it should be noted that Graph 3.1 monitors deposits at building savings accounts and in foreign currencies separately.

Table 5.5: Sector breakdown of deposits and loans with banks[27]

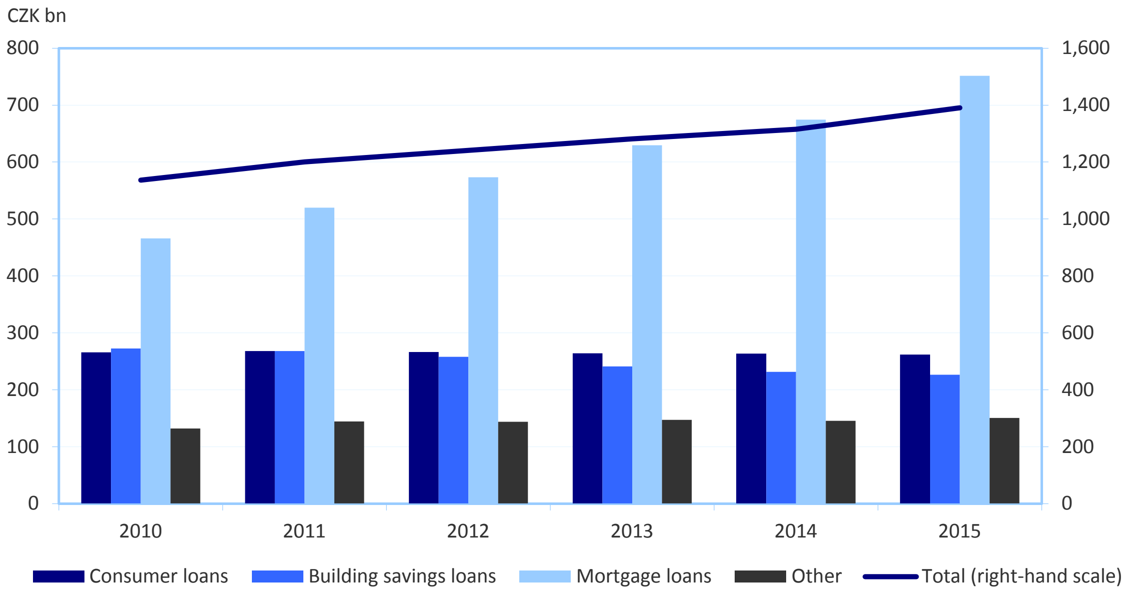
As at 31 Dec	Bank deposits (CZK bn)				Bank loans (CZK bn)			
	2014	2015	Year-on-year change		2014	2015	Year-on-year change	
			Abs.	(%)			Abs.	(%)
Households	1,923.2	2,034.7	111.6	5.8	1,228.4	1,321.4	93.0	7.6
Non-financial companies (including other institutions)	838.3	921.6	83.3	9.9	874.7	920.9	46.2	5.3
Government institutions	339.3	214.3	-125.0	-36.8	59.1	58.2	-0.9	-1.5
Financial institutions	146.7	150.3	3.6	2.4	148.7	158.7	10.0	6.7
Non-residents	156.9	167.9	11.0	7.0	322.0	320.9	-1.1	-0.3
Non-profit institutions	30.8	31.9	1.1	3.6	2.0	2.3	0.3	14.5
Total	3,435.1	3,520.7	85.6	2.5	2,634.9	2,782.4	147.5	5.6

Source: CNB – ARAD

5.6. Household Indebtedness

Households represent a key client segment that deserves a broader analysis beyond its position against the banking sector. The overall household indebtedness at the banks, as well as non-banking financial institutions,[28] amounted at the end of 2015 to almost CZK 1.4 trillion (see Graph 5.5). That represents a growth by CZK 75.0 billion or 5.7%, which means that the development dynamics was almost a double than in the previous year.

Graph 5.5: Total household indebtedness[29]



Source: CNB – ARAD, MoF, MoF calculations

[27] The table shows deposits with banks in Czech crowns and in foreign currencies, which are subsequently converted to billions of CZK. The values are therefore different from table 2.1, which lists credit institutions' deposits in Czech crowns.

[28] Based on the CNB definition, the total indebtedness of households is calculated by a simple addition of data from the consolidated balance sheets of the monetary financial institutions (i.e. a sum of the Central Bank's balance sheet and the aggregated balance sheets of the monetary financial institutions, which is calculated by a simple addition of the balance sheets of the individual commercial banks, money market funds, and credit unions) and the balance sheet statistics of the financial corporations engaged in lending. The balance sheet statistics of the financial corporations engaged in lending is derived from the "balance of assets and liabilities of the financial corporations engaged in lending" and the CNB recalculations using additional annual data on the total balance sheet of the statistically irrelevant entities.

[29] The data for loans provided by building savings banks represent the sum of the total value of „bridging“ and „standard“ loans provided under building saving schemes.

Similarly as in previous years, the development of indebtedness in the individual credit segments followed different trends, i.e. had different dynamics. The pace of growth of the mortgage loans volume has increased to 11.4% since 2011.[30] In the case of the building savings loans, the development was different – their volume continued to decrease year-on-year. As a continuation of the previous year's trend the pace of their year-on-year decrease slowed down again. The decline in 2015 was 2.2%, which is 1.6 p.p. less than the tempo of the decline in the previous year. The absolute volume of the household indebtedness for home purchase increased by CZK 72.0 billion (by 7.9%). That represents almost the double growth of the volume in comparison with 2014. A slight decrease of indebtedness related to consumption (by 0.8%, CZK 2.0 billion) has counteracted the total indebtedness already for a fourth year.

In the absolute terms, the volume of building savings loans taken by households[31] decreased year-on-year (by CZK 5.1 billion), but this decrease was lower than in 2014, when it was CZK 9.3 billion. As for the mortgage loans, there was a significant growth of their volume.[29] It was CZK 77.1 billion in 2015, but CZK 45.3 billion in 2014. For the fourth year, the volume of consumer loans continued the slight decrease trend (year-on-year by CZK 2.0 billion). During four years, it decreased by CZK 6.2 billion or 2.3% of the initial volume. Similarly to the previous years, the ratio of home loans to the total household indebtedness increased (by 1.5 p.p.). At the end of the monitored period, this indicator's value approximated 70.4% (CZK 0.98 trillion of the total CZK 1.39 trillion). Similarly to the previous years, this development was caused by a growth of the absolute values of the unpaid home loan principals and a slight decrease of the volume of consumer loans.

As is apparent from Graph 5.6, the relative level of the household indebtedness (monitored based on the ECB data on the volume of loans provided to households reported in balance sheets of the monetary-financial institutions, except for the ESCB) in relation to the domestic economy size, which also indirectly reflects household incomes and their resulting ability to service their financial obligations, is still relatively low in the Czech Republic comparing to the rest of the EU. Using this method of measurement, there was a slight year-on-year growth of 1.3 p.p. to 30.1% of GDP.[32] Similarly to the previous years, the household obligations' service costs should not be a factor that could limit a private consumption in such a scope, as it might be in countries with a higher indebtedness level, e.g. in the Eurozone member states. As is also apparent from Graph 5.6, the other new member states from the Central Europe continued to report low levels of indebtedness. This could be a result of the relatively recent conversion of these economies to the market economy, because of which loan volumes that are common within the Western Europe have not been accumulated yet.

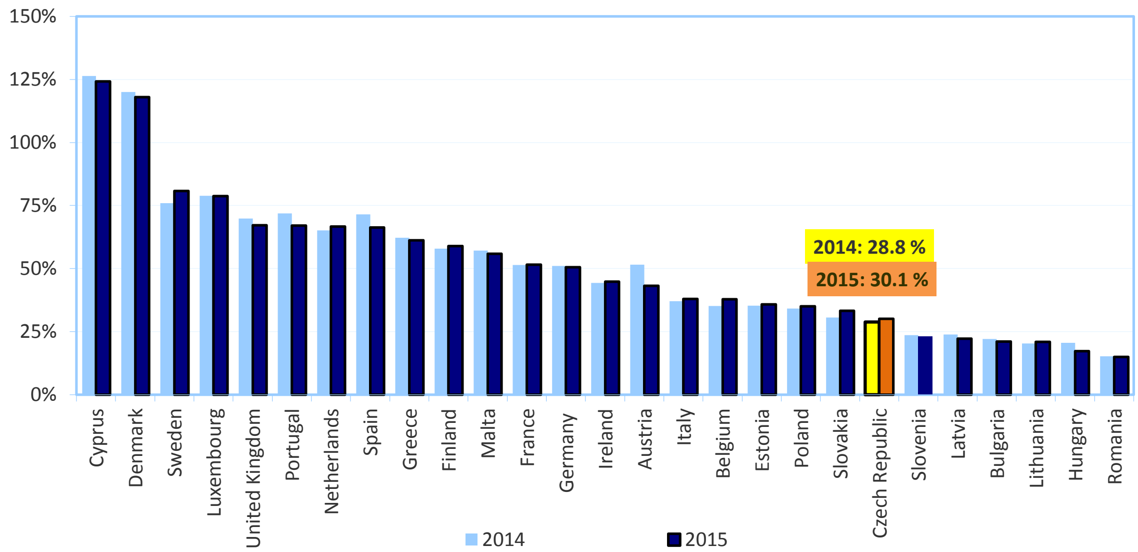
In addition to this rather long-term division, it is possible to observe other trends in development of the relative rate of household indebtedness as well. During 2010 to 2015, the most significant decrease of the household indebtedness was reported by the countries that had to deal with problems in this area, either because of unstable development of the financial markets or real economy or because of the significant indebtedness in foreign currencies and sensitivity to the exchange rate volatility. This applies to, for example, to the Baltic countries (Latvia by 23.8 p.p., Estonia by 13.3 p.p., Lithuania by 7.4 p.p.), some weakened Eurozone member states (Spain by 15.1 p.p., Portugal by 12.1 p.p.), or countries with a relative higher level of the previous indebtedness in general or also in foreign currencies (Hungary by 14.3 p.p., Denmark by 11.9 p.p., and the United Kingdom by 8.5 p.p.). Conversely, the highest growth of indebtedness within this period was reported by Slovakia (by 10.1 p.p.) where a similar need for restructuring of the domestic banking sector did not arise during the recent years.

[30] This figure reflects a different rate of growth than the indicator used in Chapter 5.7., 5.8., respectively because of a different data methodology.

[31] Based on data for private individuals.

[32] The development of this indicator viewed at the international level has a limited interpretative value in the case of economies that use a currency other than the euro. In those cases the values may reflect a volatility resulting from the fluctuation of the exchange rate of the national currency in relation to the euro, which is subsequently used for expressing household indebtedness reported in the national currency converted to the euro as the common European currency.

Graph 5.6: Volume of household indebtedness in selected countries in the EU relative to GDP



Source: ECB, Eurostat, MoF calculations

5.7. Mortgage Market

Activity on the mortgage market continued to be high during the previous period since the volume of new mortgage loans exceeded CZK 87 billion; however, it did not achieve the values of the record year 2014. The volume of newly provided mortgage loans in 2015 was 20.2% lower than in 2014. Table 5.6 shows a number and volume of newly drawn mortgage loans, according to the purchase purpose.[33] The number of mortgage loan agreements concluded in 2015 reached 47.5 thousand, which represents a year-on-year decrease of the growth pace from 25.8% to 18.7%. The majority of drawn mortgage loan funds are used to buy residential property (72.3% of newly provided loans in 2015). As for the residential property in 2015, there was also a year-on-year decrease of the growth pace of the number, as well as volume of new mortgage loans when their volume achieved CZK 63.0 billion per 42.0 thousand newly provided mortgage loans. At a closer glance, it is apparent, that the overall decrease of the new mortgage loan growth pace was caused especially by a decreasing pace of growth in the category of non-residential property and mortgage loans for other purposes. In 2015, the volume of this category's newly provided loans dropped by 56.6% in comparison with 2014 to CZK 24.2 billion and reached approximately the same volume as in 2013.

Table 5.6: New mortgage loans (ML) by manner of acquisition

As at 31 Dec		2013	2014	2015	Year-on-year change	
					Abs.	(%)
Residential property	total (000's)	27.7	34.8	42.0	7.2	20.8
	total agreed principal (CZK bn)	44.2	53.5	63.0	9.5	17.7
Non-residential property and other purposes	total (000's)	4.1	5.3	5.5	0.3	4.8
	total agreed principal (CZK bn)	24.7	55.7	24.2	-31.6	-56.6
Total	total (000's)	31.8	40.0	47.5	7.5	18.7
	total agreed principal (CZK bn)	69.0	109.2	87.1	-22.1	-20.2

Source: CNB – ARAD

[33] The CNB definition of newly provided mortgage loans is understood to include any new agreements between a bank and a client, i.e. financing contracts, which establish an initial interest rate, as well as any subsequently negotiated agreements associated with the existing contract (such as the refinancing of a mortgage loan). The share of refinanced loans within the total number of mortgage loans is continuing to grow. Not all the data required to calculate the exact amount of refinancing is available, however, based on other information, it is possible to estimate that this share is several tens of percentage points. Taking into account the above-specified distortion of the indicator of provided mortgage loans for the given year, the main reporting value of this indicator is primarily the fact that it illustrates the ability of the individual mortgage loan providers to maintain their respective market shares.

From the aspect of the total volume of unpaid contractual principal, i.e. the residual value of the mortgage loans[34], the mortgage market grew, even though this growth registered a slight decrease in year-on-year increments. Therefore, at the end of 2015, the total volume of mortgage loans reached approximately CZK 1.26 trillion (see Table 5.7). Based on the comparison of the year-on-year change of the total mortgage loan volume in the amount of CZK 84.6 billion and the volume of newly provided mortgage loan in the amount of CZK 87.1 billion, it is possible to assume that a bigger amount of the mortgage loans was paid off than drawn via the newly concluded loans. The net payment of mortgage loans took place in the category of mortgage loans for non-residential property and other purposes since their volume grew year-on-year only by CZK 16.2 billion to CZK 344.1 billion. Conversely, the mortgage loans for residential property whose share in the overall volume was approximately 72.6% at the end of 2015, experienced the opposite development when their volume increased year-on-year by CZK 68.4 billion (CZK 63.0 billion in new drawings) to CZK 913.1 billion.[35]

Table 5.7: Total mortgage loans (ML) by manner of acquisition

As at 31 Dec		2013	2014	2015	Year-on-year change	
					Abs.	(%)
Residential property	total (000's)	687.0	711.0	758.0	47.1	6.6
	total outstanding principal (CZK bn)	790.4	844.7	913.1	68.4	8.1
Non-residential property and other purposes	total (000's)	81.1	97.3	100.1	2.8	2.9
	total outstanding principal (CZK bn)	286.3	327.8	344.1	16.2	4.9
Total	total (000's)	768.0	808.3	858.2	49.8	6.2
	total outstanding principal (CZK bn)	1,076.7	1,172.5	1,257.1	84.6	7.2

Source: CNB – ARAD

The mortgage loan structure based on the fixation period is strongly influenced by the interest rate development and client expectations regarding their future development. In 2015, the mortgage loans the most often accepted by clients had their fixation from 1 to 5 years (CZK 48.9 billion, which represented 56.1% of the new loan volume), and their total volume grew by 19.0% to CZK 716.7 billion. In relative terms, however, the pace of new mortgage loans grew the most within the category with the 5 to 10 year fixation (by 31.2% to CZK 11.8 billion) and with fixation exceeding 10 years (by 24.6% to CZK 2.4 billion). Even that was not enough to prevent a year-on-year decline of the total volume of mortgage loans in these longer fixation period categories to CZK 117.9 billion and CZK 120.0 billion respectively. A big popularity of floating-rate mortgage loans, which was apparent in their volume growth in 2013 and 2014, as well as in the increments of new mortgage loans in this category in 2014, declined in 2015 when the volume of their unpaid principal decreased year-on-year by 1.7% to CZK 302.5 billion. This development implies that clients believed that the mortgage rates achieved the minimum and would tend to grow in the future; in other words, it reflected decreased rates for fixation, which increases its attractiveness in comparison to floating-rate loans.

[34] Based on the data published by the CNB, this includes the volume of unpaid (outstanding) principal including refinanced loans. From the perspective of the methodology that is used, it is not possible to, for example, automatically interpret an increase in the indicator as an increase in the loans provided by banks or their willingness to provide loans, as it may also be a reflection of the deteriorating ability of borrowers to repay their debt. In addition, the statistical methods used by the CNB generally report a portion of the loans provided by building savings banks within the category of mortgage loans.

[35] From the aspect of further interpretation of these indicators, it is necessary to realize that the volume of newly provided loans can be affected by, for example, refinancing frequency, and in addition to the newly provided loans and intensity of payments, the total volume of mortgage loans might also reflect other factors, such as write-offs of non-performing loans.

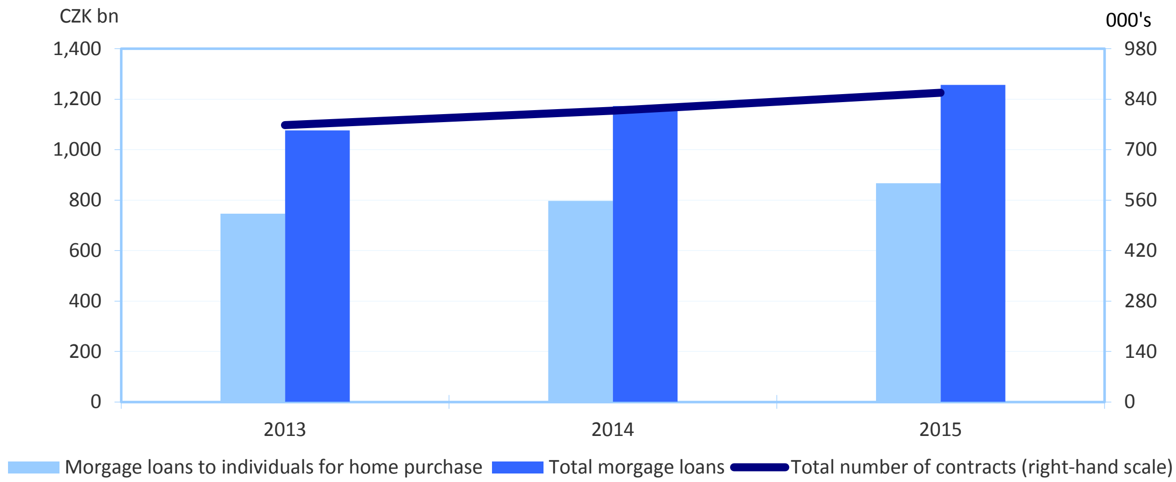
Table 5.8: Mortgage loans (ML) by period of interest rate fixation

As at 31 Dec		2013	2014	2015	Year-on-year change	
					Abs.	(%)
New mortgage loans (CZK bn)	Floating and fixing up to 1 year (incl.)	26.1	57.2	24.0	-33.2	-58.1
	Fixing over 1 and up to 5 years (incl.)	37.9	41.1	48.9	7.8	19.1
	Fixing over 5 and up to 10 years (incl.)	2.9	9.0	11.8	2.8	31.2
	Fixing over 10 years	2.1	1.9	2.4	0.5	24.6
	Total	69.0	109.2	87.1	-22.1	-20.2
Total unpaid principal (CZK bn)	Floating and fixing up to 1 year (incl.)	273.0	307.6	302.5	-5.1	-1.7
	Fixing over 1 and up to 5 years (incl.)	544.9	602.5	716.7	114.2	19.0
	Fixing over 5 and up to 10 years (incl.)	116.4	122.9	117.9	-5.0	-4.1
	Fixing over 10 years	142.4	139.6	120.0	-19.5	-14.0
	Total	1,076.7	1,172.5	1,257.1	84.6	7.2

Source: CNB – ARAD

As illustrated in Graph 5.7, development of the mortgage market's cumulative indicators, i.e. the total volume and number of mortgage loans within the last three years[36] reported continuous slight growth. The traditionally dominant category of recipients – individuals increased its indebtedness via the total volume of mortgage loans used to home purchase by CZK 70.1 billion (i.e. by 8.8%) to CZK 867.0 billion[37] at the end of 2015. The individuals mortgage loan indebtedness increased its growth pace since between 2013 and 2014, the provided mortgage loans' volume differed by CZK 50.3 billion (i.e. 6.7% year-on-year growth). In the long-term, the individuals are the utmost recipients of mortgage loans. Measured as a ratio to the total volume of mortgage loans provided in 2015, the share was 69.0%. As for the loans for residential property, the individuals' share was 95.0%. In 2015, the individuals segment's share of the new mortgage loan contracts volume was 78.5% and share of the number of new mortgage loan contracts 98.0%.[38]

Graph 5.7: Aggregate mortgage market indicators



Source: CNB – ARAD

[36] The three-year monitored period was set because of the CNB data methodology for mortgage loans that was available beginning on 31 December 2013.

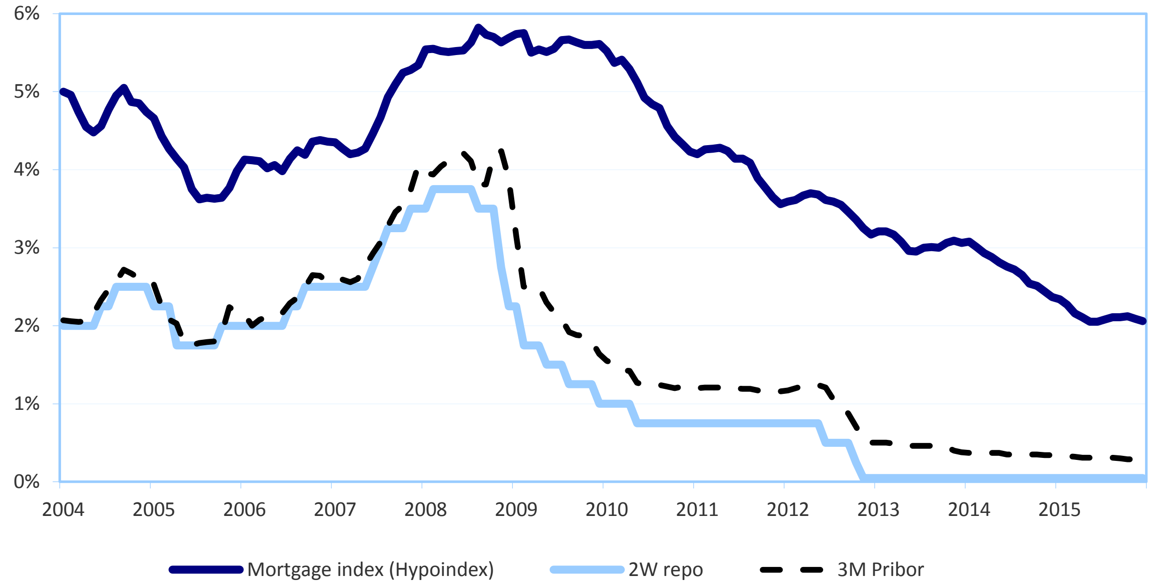
[37] Mortgage loans provided to the individuals (employees, property income recipients, pension recipients, and other transfer recipients) to finance residential properties (including land). They also include loans from building savings if they meet the mortgage loan definition (building savings mortgage loans). Since this relates to the outstanding volume of unpaid principal, including loan refinancing, based on the CNB data, from the aspect of the methodical approach, the indicator's increase cannot be automatically interpreted only as a growth of loans provided by banks or their increased willingness to provide loans, but it can also be a result of decreased ability of debtors to pay off their loans.

[38] In the case of number of new mortgage loan contracts concluded by the individuals in 2015, the methods and data were provided by the Ministry of Regional Development. Data on the mortgage loan numbers and volumes were provided to the Ministry of Regional Development by selected nine mortgage banks that represent the cumulative 90-95% share in the mortgage loan market because of the government subsidy policy.

The Hypoindex rate kept decreasing in 2015.[39] However, the size of year-on-year decrease was smaller than in the previous year, but that could be partially explained by the fact that interest rates in the economy were close to the zero levels. Despite that, the mortgage loan interest rates decreased to the lowest levels of the Hypoindex history in May and June 2015 (2.05% p.a.). The persistent low level of rates at the historical minimum represented the main factor affecting growth of the mortgage market activity. The Hypoindex value from December 2015 of 2.06% was lower by 0.31 p.p. than in December 2014, whereas the Hypoindex arithmetic average difference between 2014 and 2015 was almost double (i.e. 0.60 p.p.). Therefore, it reflects the rate's faster decrease pace during 2014. In comparison, the difference between the end of 2013 and 2014 rates was 0.69 p.p., and the arithmetic average difference was 0.34 p.p. in those years.

The long-term causes of the Hypoindex rate drop might include competition between loan providers and especially cheaper funding for the banks resulting from easy monetary conditions. The relationship between development of client, interbank, and monetary policy rates is illustrated in Graph 5.8.

Graph 5.8: Development of selected interest rates



Source: Fincentrum, CNB – ARAD

The spread between the interest rate applied to the newly provided mortgage loans and the key monetary policy rate (i.e. the Hypoindex and 2W repo rates) has continued to narrow since the beginning of 2015. In the second quarter, this spread reached the historically lowest value, 2 p.p. During the second half of 2015, the difference between the rates started to deepen; however, it returned to 2 p.p. at the end of the year. A spread this low was not reported even in 2008 when the monetary policy rates were significantly higher (exceeding 3%) and the Hypoindex rate was close to 6%. Conversely, the maximum value (4.6 p.p.) was reached at the end of 2009. In general, there is an apparent long-term response of mortgage loan providers to the decrease of the key interest rate by the Central Bank (since 2008) achieved by gradual decrease of the loan interest rates.

The mortgage market development in relation to the individuals (in terms of development of the volume of newly provided loans) should in the long-term continue to be supported by a relatively low indebtedness level of Czech households and low interest rates. Yet, favourable economic development perceptions and situation on the labour market can represent the factors that would persuade households to proceed with until now postponed intentions to buy a residential property on a mortgage loan. Decrease of the deposit interest rates close to the zero level, together with a limited supply of safe investment opportunities, supports the growing tendency of households to use mortgage loans (or its gradual repayment) as a form of investment. However, at the same time, this development and related demand for real estate were probably among factors that in 2015 caused growth of property prices (especially in the case of preferred property sizes and localities). Another factor of uncertainty related to the future development of new mortgage loans also rests in

[39] The FINCENTRUM HYPOINDEX indicator is the weighted average interest rate which is applied to new mortgage loans provided to individuals during the given calendar month. The provided loan volumes constitute weights. The input data for the calculations are provided by the following banks: Česká spořitelna, ČSOB, Equa Bank, Expobank CZ (former LBBW Bank), Hypoteční banka, Komerční banka, Moneta Money Bank (former GE Money Bank), Raiffeisenbank, Sberbank CZ, UniCredit Bank, and Wüstenrot hypoteční banka.

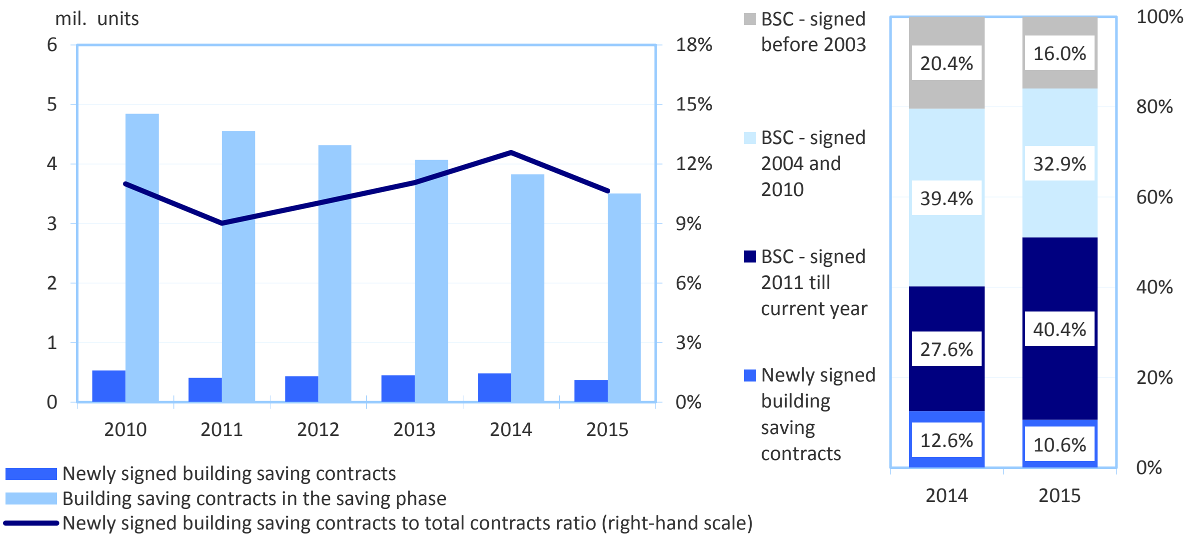
development of the indicator's individual components – mortgage refinancing (at a different institution), renewed contracts (the same institution), and net new contracts.[40]

5.8. Building Savings Banks

In 2015, the building savings schemes' development differed in the main indicators' development from the previous years. In comparison with 2014, the volume of newly granted loans increased, but the number of newly signed building savings contracts decreased. The number of contracts concluded in 2015 only slightly exceeded 373 thousand, which represents a decrease by 22.5% in comparison with 2014. New contract conclusions were probably negatively affected especially by a decreased interest of participants to open building savings accounts for minors. This situation was probably caused by a rather complicated process of withdrawal of funds from accounts registered to minors. Even though the necessity to submit a permit to handle funds issued by the guardianship court was in place already during the old Civil Code's effective period, which is supported by certain rulings from the past, the building savings bank started to act in accordance with this regulation in 2015.

The total amount of contracts in the savings phase (see Graph 5.9) also decreased year-on-year by 8.4% to CZK 3.5 million, which further intensified the previous years' decrease trend (it was less than 6% in 2013 and 2014). The annual renewal of the whole group of contracts in the savings phase, i.e. the ratio of newly concluded contracts to the total number of contracts on building savings, also decreased because of the apparent decrease of new contracts from 12.6% in 2014 to 10.6%. As is apparent from the right side of Graph 5.9, the important year-on-year growth and the highest 40.4% share was achieved by the group of contracts concluded from 2011 to 2014. The contracts that were concluded from 2004 to 2010 (supported by the CZK 3,000 maximum state contribution) and the contracts concluded before 2004 (supported by the CZK 4,500 maximum state contribution) represented 48.9% of contracts in the savings phase. However, less than 40% of contracts in the savings period represented contracts past their minimum saving periods at the end of 2015.

Graph 5.9: Number of building savings contracts (BSC)[41]



Source: Building savings banks, MoF calculations

Within the third year of decrease, the total savings amount dropped below CZK 400 billion and amounted to CZK 384.2 billion at the end of 2015. In comparison with the previous year, the year-on-year decrease was more intensive and almost doubled (to 7.1%). From the aspect of the deposits' maturity, it is possible to divide

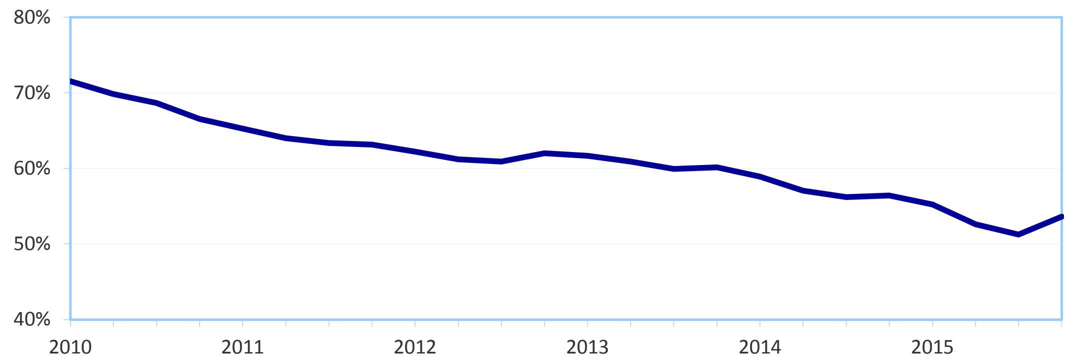
[40] Based on the CNB data, the ratio of the mortgage loans refinanced by different institutions to the new residential property mortgage loans provided to households and not-for-profit institutions that are instrumental to households was 11.6% in 2015 (12.4% in 2014), the ratio of contracts renewed with the same institution was 27.3% (29.9% in 2014), and the ratio of the net new loans, including increase, was 61.1% (57.7% in 2014).

[41] During the existence of the building savings schemes, the state contribution has been decreased twice. During the first ten years, the state contribution was CZK 4,500. Starting in 2004, this was decreased to CZK 3,000 for all new contracts. The second decrease was in 2011 and it applied to all participants in the building savings schemes. Since that year, the maximum state contribution is CZK 2,000 per participant.

the building savings participants into two groups. The first group consists of participants who started saving less than six years ago (the so-called minimum saving period length[42]). The second group consists of deposits that are already past their minimum saving period, which means that the individual participants fulfilled the minimum time period stipulated by law needed to receive the state contribution, and, therefore, they are eligible to withdraw their funds almost at any time (upon expiration of a notice period). In this aspect, the building savings funds de facto represent deposits redeemable at notice.

As illustrated in Graph 5.10, deposits after the minimum saving period formed approximately 53.6% of the total deposit volume at the end of 2015. Except for this indicator value's increase at the end of 2015, there is an apparent long-term decreasing pattern (see the monitored period of Graph 5.10). In 2015, the building savings banks presumably continued to decrease the interest rates on deposits related to contracts after their minimum saving period, which was one of the most important reasons of decrease of a part of the deposits after their minimum saving period and of contract cancelling.

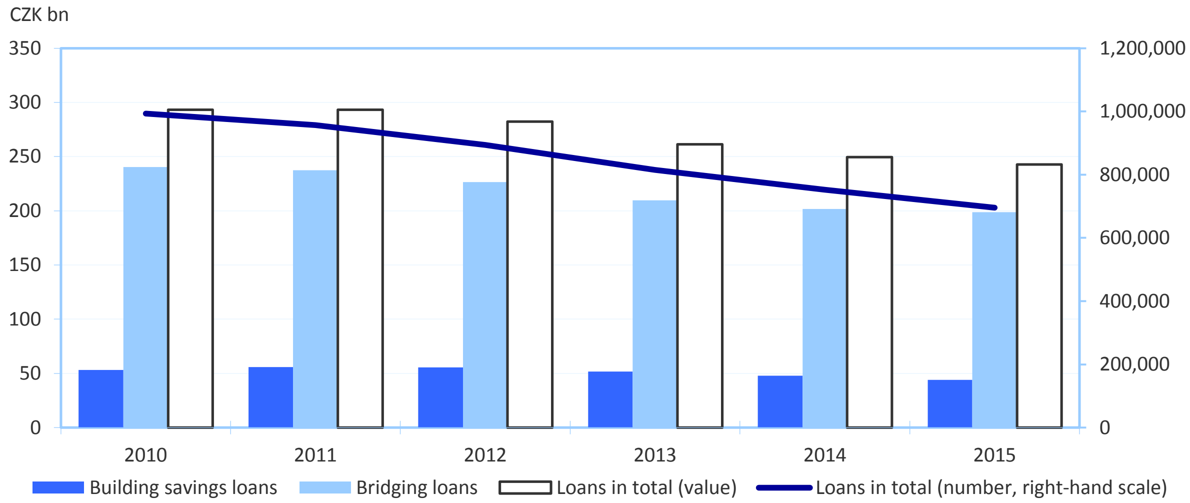
Graph 5.10: Percentage of volume of deposits after the minimum saving period



Source: Building savings banks, CNB – ARAD, MoF calculations

Even though the volume of total funds borrowed as loans from the building savings banks decreases every year, the pace of decrease slowed down in 2015. In 2015, the total volume of loans granted by the building savings banks decreased by 2.8% to CZK 242.7 billion, whereas in 2014, it decreased by 4.5%. There was again a more significant (8.5%) reduction of the building savings loans, while bridging loans decreased year-on-year only by 1.4%. During 2015, bridging loans continued to represent the best credit product for the building savings banks because their share of the total credit volume achieved in 2015 the highest value per the monitored period (2010-2015), 81.9%.

Graph 5.11: Volume of loans granted by building savings banks

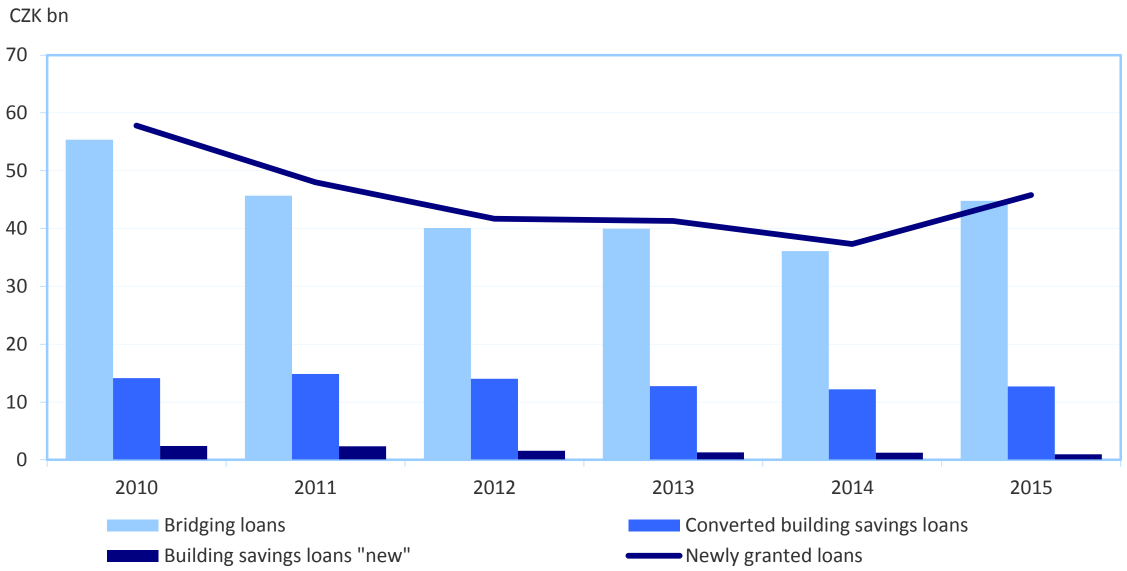


Source: Building savings banks

[42] The minimum saving period is one of the conditions that must be fulfilled to receive the government subsidy, and it represents the mandatory period, during which a client must save. Since 2004, it has been six years. Prior to that time, it was five years.

From the aspect of newly provided loans,[43] year 2015 was successful for the building savings banks since the building saving banks managed the year-on-year increase of the volume of the newly provided loans by 22.7% and provide loans in the total amount of CZK 45.8 billion. At the same time, loans provided by the building savings banks experienced an increase in the average amount of newly drawn loan to CZK 610 thousand (CZK 540 thousand in 2014). The bridging loans clearly represented the strongest area with their 97.9% share of the new loans; in 2015, they funded residential needs in the amount of CZK 44.8 billion. The increment of the building savings loans actually decreased in comparison with 2014 and reached less than CZK 1.0 billion.

Graph 5.12: New loans in the building savings bank sector



Source: Building savings banks

Despite the increased loan activity on the Czech banking market, the building savings banks registered a decrease of the total loans amount in 2015, but in a smaller scope. The more significant decrease of saved amount than the total volume of loans granted by the building savings banks caused growth of the loans to deposits ratio indicator, which decreased in the previous years (see Table 5.9).

Table 5.9: Main indicators for the building savings bank sector

As at 31 Dec	2010	2011	2012	2013	2014	2015
Loans in total (CZK bn)	293.4	293.1	282.2	261.4	249.6	242.7
Saved amount (CZK bn)	430.1	433.4	435.0	429.1	413.6	384.2
Loans in total to saved amount ratio (in %)	68.2	67.6	64.9	60.9	60.4	63.2

Source: Building savings banks

In 2015, interest rates represented an important factor for concluding the building savings contracts, as well as for taking loans from the building savings banks. For newly concluded building savings contracts, the interest rates from deposits did not experience a significant decrease during 2015 and even remained the same at certain building savings banks; by the end of the year, the majority of them levelled off at 1% p.a. Taking into the account the state contribution, the building savings programs provided the net annual return slightly above 3% p.a.[44], by which it continued to be a strong competitor of other savings products. As illustrated in Graph 5.13, the average interest rate applied to new loans provided by the building savings banks during 2015 was fluctuating near 4%, but at the end of the year reached 4.16% p.a.[45] While decrease of the mortgage

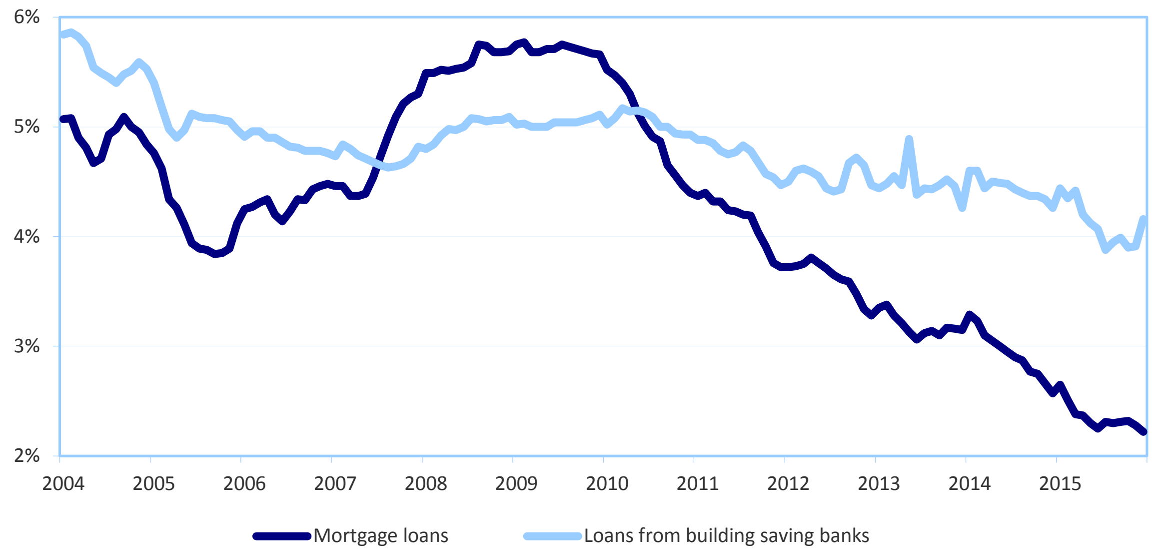
[43] Newly granted loans are calculated as the sum of newly granted bridging loans (the light blue bar in Graph 5.12) and newly granted building savings loans (the dark blue bar in Graph 5.12). A special category consists of “converted building savings loans” (these are not newly granted loans), which were used by the borrowers as a bridging loan that, after the contractual conditions are met, are converted into standard building savings loans with a new repayment schedule and generally with better interest conditions.

[44] The net return reflects the interest on deposits, state contribution, entry and other account administration fees, and with regard to the state contribution, it corresponds with the optimum amount of monthly deposits (i.e. CZK 1,700) and savings only for the minimum saving period (i.e. 6 years).

[45] The line that illustrates the interest rates of the new building savings loans in Graph 5.5 includes the interest rates of both the newly concluded bridging loans and building savings loans.

loans' interest rates slowed down, the building savings loans' interest rates were decreasing faster than in the previous years.

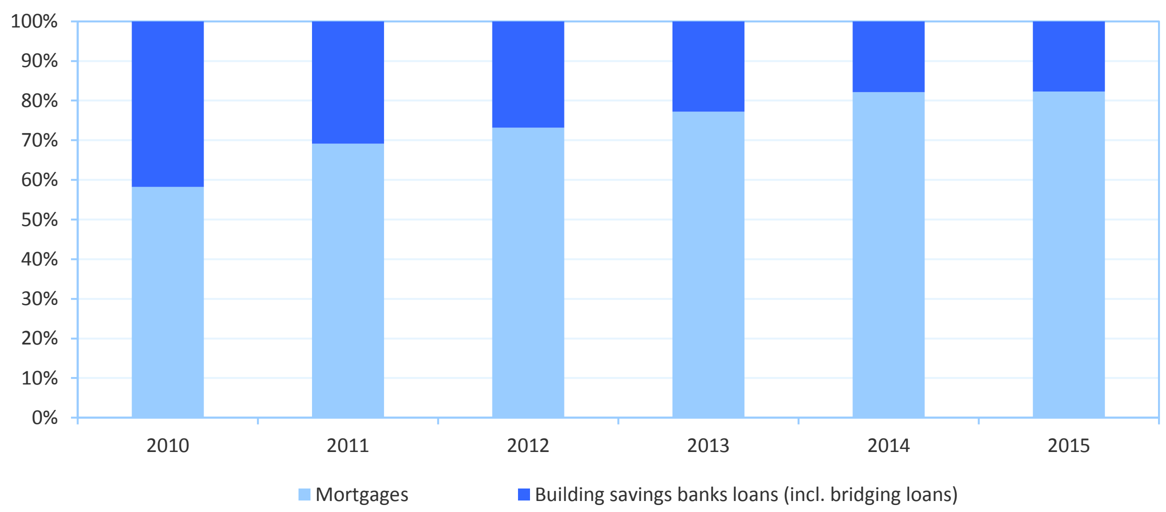
Graph 5.13: Development of interest rates from new loans for house purchase provided to households



Source: CNB – ARAD

The percentage share of the new building savings loans' volume in the volume of the new loans granted to households for home purchase did not significantly change in 2015 since it decreased year-on-year from 17.9% to 17.8%. During 2015, the mortgage banks were only slightly more successful in providing loans to households; their annual increase was by 22.8% higher than in 2014 whereas new loans provided by building savings banks grew by 22.2%. The total volume of newly provided housing loans increased year-on-year by 22.7% to CZK 254.7 billion.

Graph 5.14: Shares of new loans granted by commercial and building savings banks



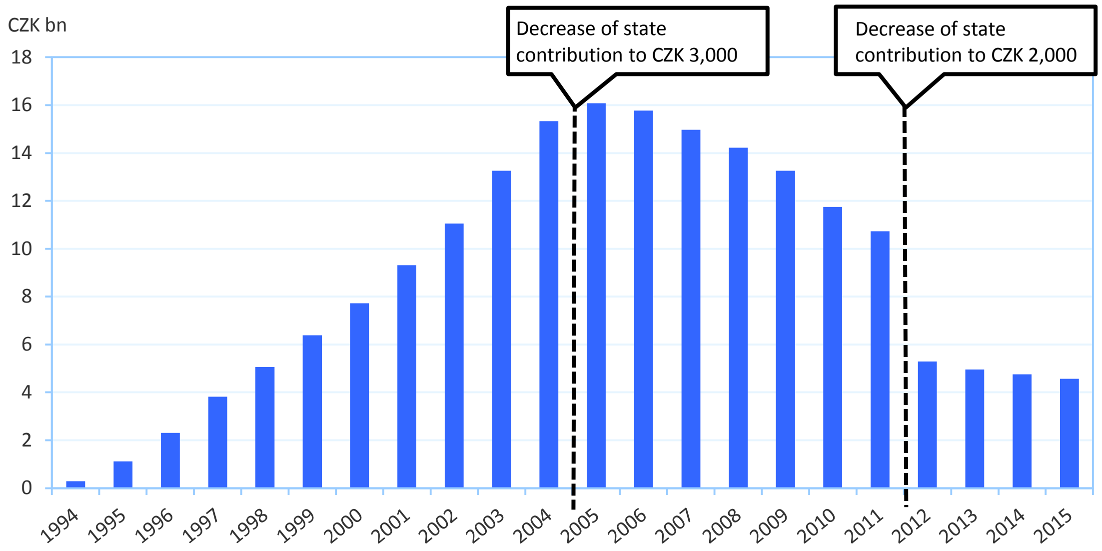
Source: Building savings banks, CNB – ARAD, MoF calculations

In its effort to support home policy funding and directing household savings toward housing, the government pays contribution from the state budget. In 2015, the building savings contracts received the CZK 4.6 billion total state contribution, which was 4.2% less than in 2014. A more significant decrease was reported from 2011 to 2012[46] (by 50.7%), resulting from a decrease of the maximum annual state contribution from

[46] The state contribution is disbursed retroactively for the preceding year, and thus the effects of the decrease in the state contribution that occurred in 2011 were not reflected until 2012. For this reason, in Graph 5.15 the designated decreases in the state contribution are moved one year forward from their effective date.

CZK 3,000 to CZK 2,000. From 1994 to 2015, the government paid the cumulative contribution of approximately CZK 192 billion (see Graph 5.15) to the participants in building savings schemes.

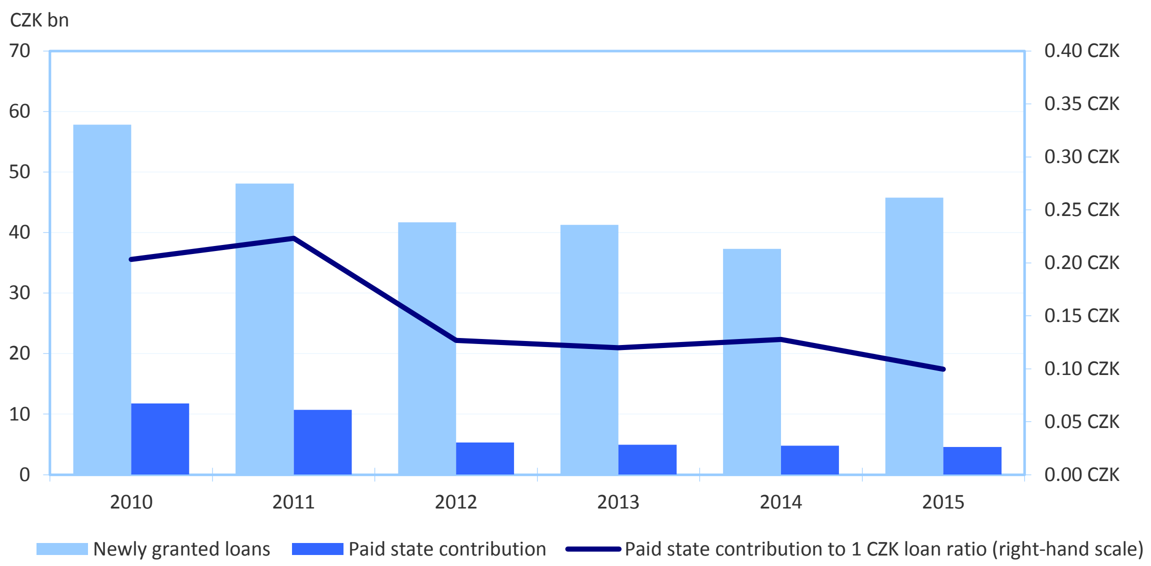
Graph 5.15: Paid state contribution



Source: MoF

The line in Graph 5.16 represents the state contribution allocated for each CZK 1 of the purpose-specific housing expense, i.e. a loan generated by the building savings sector. The state contribution decrease across the board effective since 2011 achieved a significant increase of effectiveness of the expended state contribution. The effectiveness of the state contribution further increased in 2015; however, at this time, as a reaction to continuous decrease of number of new and total building savings contracts, which reached CZK 0.10.

Graph 5.16: Paid state contribution to loan ratio



Source: Building savings banks, MoF calculations

More detailed information on the building savings banks sector are regularly quarterly updated on the following website www.mfcr.cz (also, see Table A2.5 of Appendix 2).

5.9. Credit Unions

Even though recent development of the credit union sector was affected by several operation licence revocations by the supervising authority during the previous years (in 2012 the Unibon - spořitelní a úvěrní družstvo; in 2013 the Metropolitní spořitelní družstvo, and in 2014 the WPB Capital), it got stabilized in 2015. Therefore, there are 11 credit unions operating on the market where two biggest ones represent 64% of the sector and four biggest ones represent 85% of the sector as for the assets.

Table 5.10: Main indicators for the sector of credit unions

As at 31 Dec	2010	2011	2012	2013	2014	2015	Year-on-year change	
							Abs.	(%)
Number of members of credit unions	34,003	44,687	54,402	53,594	57,179	51,185	-5,994	-10.5
Total assets (CZK bn)	19.9	28.3	39.3	31.6	31.3	32.3	1.1	3.4
Loans and advances (CZK bn)	15.3	23.2	31.9	24.2	22.1	21.7	-0.4	-1.7
Deposits (CZK bn)	17.9	25.4	34.8	27.6	27.4	27.8	0.4	1.5
Share of loans provided to deposits received (%)	85.4	91.2	91.4	87.9	80.6	78.1	-2.5	-3.2
Share of quick assets to total assets (%)	17.6	13.1	14.4	18.8	23.8	27.4	3.5	14.9
Share of non-performing loans to total liabilities (%)	8.2	13.2	7.8	19.0	22.7	18.8	-3.8	-16.9
Coverage of non-performing loans by allowances (%)	12.8	13.8	16.4	16.6	18.8	20.8	1.9	10.1
Total capital ratio (%)	12.2	12.1	13.3	14.3	13.5	15.8	2.3	17.0
Profit/loss (CZK mn)	-38.8	122.8	303.8	-19.8	18.3	41.4	23.1	126.7
Return on Tier 1 capital (%)	-2.3	5.5	-	-	0.5	1.1	0.6	107.4

Source: CNB – ARAD

Note: Data are always provided from the beginning of the year to the end of the monitored period. For 2012 and 2013, no profitability data are available and interpretable for credit unions because of non-uniform fiscal years of the individual entities.

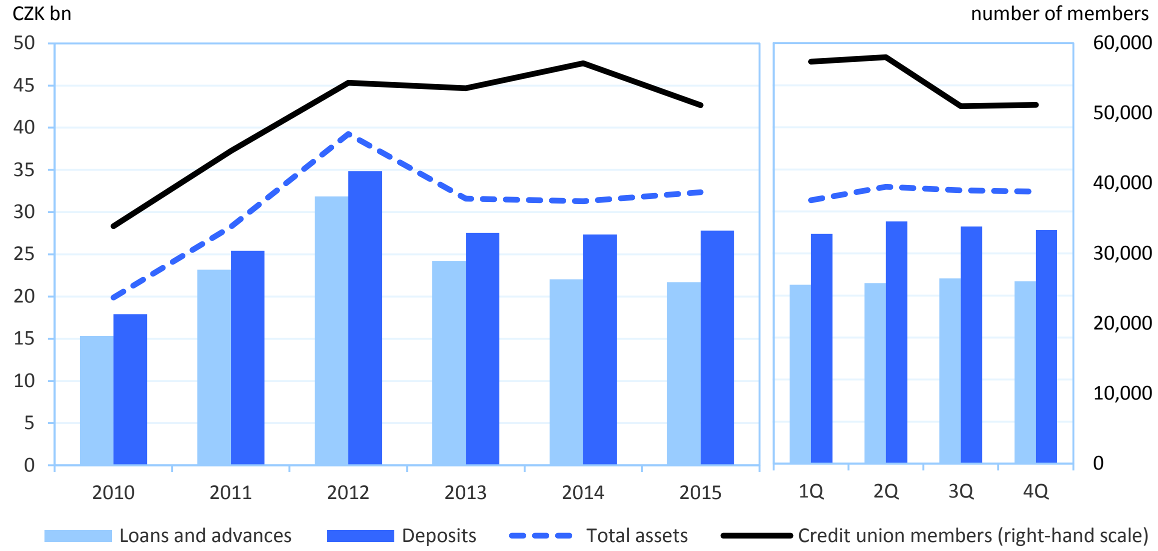
As illustrated in Table 5.10, the sector's balance amount grew by CZK 1.1 billion to CZK 32.3 billion, which represents 0.59% of the banking sector's balance amount at the end of 2015. The volume of deposits also slightly increased by CZK 0.4 billion to CZK 27.8 billion. This increase took place especially during the first half of 2015 when members utilized the opportunity to deposit their funds before new regulatory rules were established (details as follows). On the other hand, the loan activities decreased and loans dropped year-on-year by CZK 0.4 billion to CZK 21.7 billion. The positive development in the credit union sector was further illustrated by a decreased ratio of non-performing loans to the total liabilities by 3.8 p.p. to 18.8%, increased coverage of non-performing loans by allowances by 1.9 p.p. to 20.8%, and increased total capital ratio by 2.3 p.p. to 15.8%, which is highly above the capital share defined by the legislation. In 2015, the post-taxation economic result of the whole credit union sector reached CZK 41.4 million, which represents a profitability increase by CZK 23.1 million, compared to the previous year.

In 2015, a significant event of the credit union sector was the introduction of the new regulatory rules that should increase the sector's stability in the future. A more detailed analysis indicates that due to the deposit product new rules, especially the introduced rule of ten-times the amount[47], during the first two quarters of

[47] Per the amendment to Act No 87/1995 on credit unions, as amended, as of 1 July 2015 onward, a credit union member's total deposits subject to interest or similar benefits must not exceed the ten-times the amount of his paid basic member deposit and other paid member deposit. In other words, new deposits made in one's credit union exceeding the ten-times the total amount of every member's paid member deposits will generate no interest after 1 July 2016. Neither the basic member deposits nor any other member deposits made by credit union members are covered by any deposit insurance; therefore, if one's credit union becomes insolvent, his member deposit cannot be compensated through the Deposit Insurance Fund. However, the credit union members receive profit of the credit union itself per the amount of their member deposit.

2015, the credit union members increased their deposits by CZK 1.5 billion. In the second quarter, there was a slight decrease followed by subsequent stabilization at CZK 27.8 billion. The year-on-year comparison indicates that the deposits increased by CZK 0.4 billion (i.e. by 1.5%).

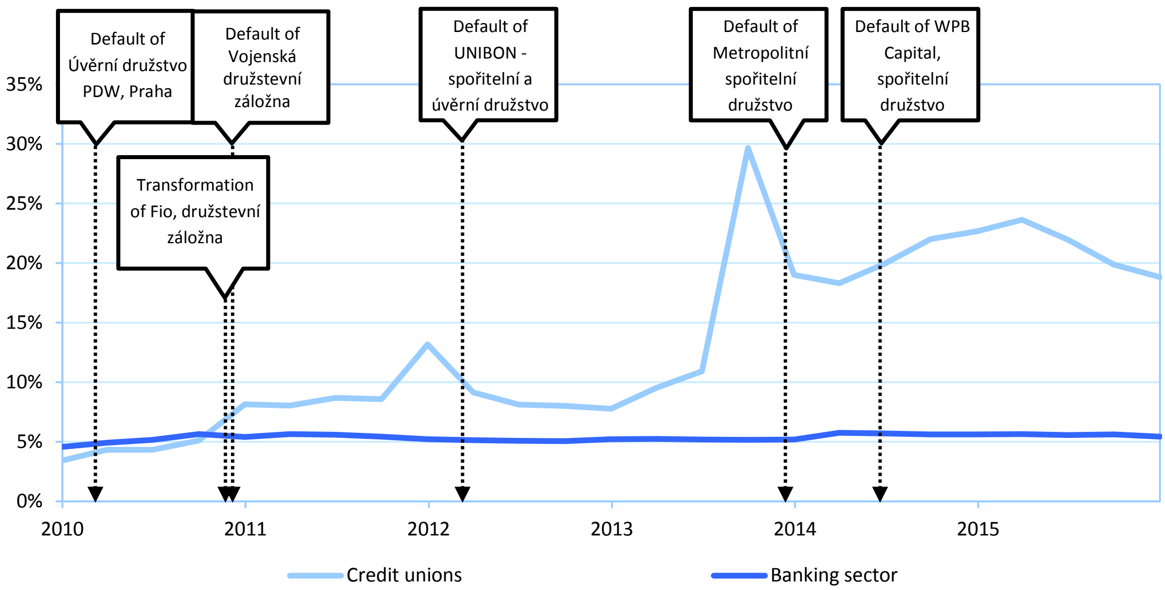
Graph 5.17: Main indicators for the sector of credit unions and quarterly development in 2015



Source: CNB – ARAD

During 2015, the credit union sector's long-term growth was confirmed. It results from the fact that the credit unions, unlike banks, offer greater deposit interests with the same coverage level of deposit insurance. However, the credit unions operate with relatively higher costs due to their specific fixed administrative costs. In the end of 2015, the credit union sector's administrative costs were 2.4% of their average assets (the banking sector's administrative costs were 1.3%) and 69.8% of their profit from their financial and operating activities (in the case of the banking sector it was 40.5%). These higher costs combined with high deposit interests force the credit unions to invest into riskier assets, which is the primary cause of their high failing credit ratio that is a few times higher than in the banking sector. In the times of credit institutions' low interest rates and eased credit standards, the credit unions face another pressure to keep their market share.

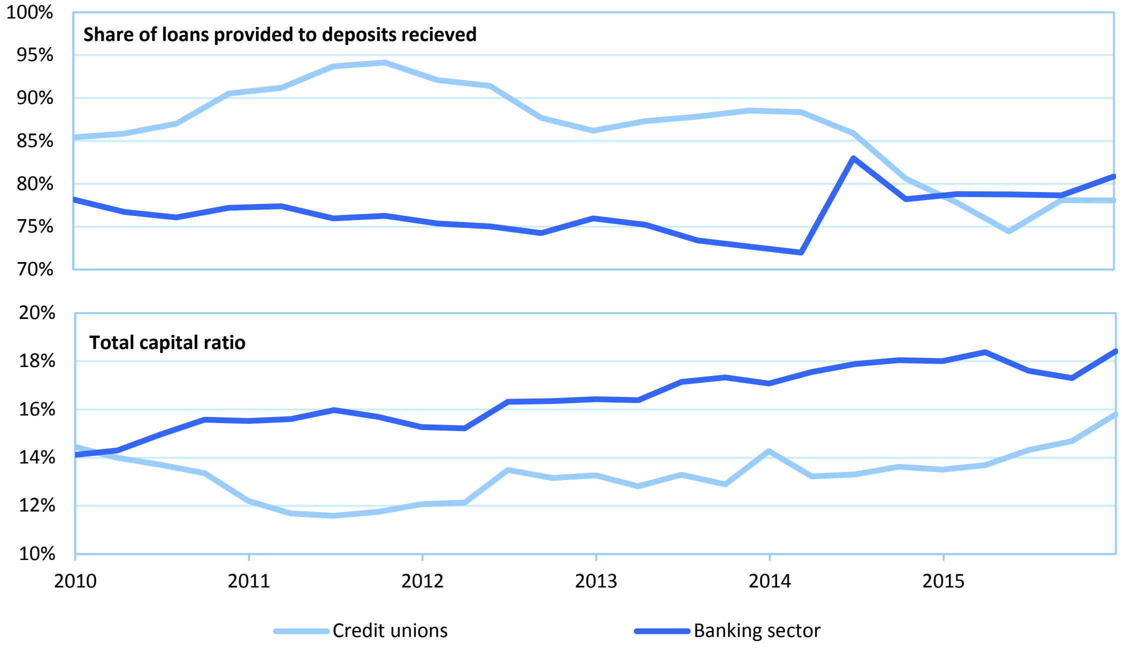
Graph 5.18: Share of non-performing loans to total liabilities



Source: CNB – ARAD, MoF calculations

The indicator of the share of non-performing loans to total liabilities illustrates the development in the sector when the credit portfolio riskiness significantly increased since mid-2012 and reached its relatively high values (18.8%) in the end of 2015. One may also see the decreasing or recovery trend in 2015.

Graph 5.19: Share of claims to liabilities and capital ratio



Source: CNB – ARAD, MoF calculations

Compared to the previous years, one may see some other indicators improving as well. The whole sector's capital ratio has been growing in the long-term. In the end of 2015, it reached 15.8%, which was only 2.6 p.p. below the banking sector's total capital ratio. The values reached in the banking sector were also nearly matched by the ratio of provided credits of deposits received by the credit unions and banking sector. In the end of 2015, the credit unions reached the ratio about 78.1%. Last but not least, one may also appreciate the development of the credit unions' quick assets whose ratio of the sector's total assets reached the average of 26.7 % (the banking sector's was 32.1% on average) in 2015.

5.10. Non-Bank Financing Providers

Non-bank financing providers present an alternative to credit institutions with regard to the options available for obtaining loan financing. However, at the same time a number of entities in this segment are linked financially and through ownership with the banking sector within some of the financial groups. In the end of 2015, the total assets of this part of the financial market reached CZK 347.8 billion (see Table 5.11), and it did not reach even the 10% of the banking sector's balance sheet volume during the past five years.

In 2015, this sector's balance sheet volume decreased (by 6.8 billion, i.e. 1.9%). Consequently, the volume of assets was the third lowest during the monitored period. The sector's balance sheet reached its historically highest figure in 2008 (CZK 448.9 billion) before it became fully affected by the world financial crisis. During the two years after the crisis, it decreased by more than 20%, and over the past 5 years its volume has been stable. The volume of provided loans is the most key long-term balance sheet item exceeding 70% of assets.

The sector of non-banking funding providers is usually divided into three specific segments: Financial leasing companies, other lending companies, and factoring and forfaiting companies. During the monitored period, the breakdown of this sector's total assets into the partial segments was relatively stable till the year 2015 when it changed significantly. The financial leasing companies that dominate the sector on a long-term basis increased their share on total assets of the sector by 7.2 p.p. up to 80.9%. On the contrary, the other lending companies' total assets dropped by a third, and their share decreased from more than 20% to 13.5%. In 2015, the relative share of the factoring and forfaiting companies did not significantly change, and it kept fluctuating within the 5 to 6% interval, like during the previous three years.

Despite the fact that the greater part of the non-banking funding providers' production represents credit relationships with entrepreneurs, the retail client segment is also seen by these subjects as their important customer group. The typical financial products provided in this case are various forms of consumer credit – instalment sales (financing of goods or services), general cash credits and loans, credit cards, and revolving products.

Table 5.11: Main indicators in the non-bank financing providers sector[48]

As at 31 Dec (CZK bn)	2010	2011	2012	2013	2014	2015	Year-on-year change (%)
Total assets	352.3	356.1	346.3	342.1	354.5	347.8	-1.9
Loans provided	260.8	266.3	256.6	246.9	255.8	256.4	0.2
Volume of total assets (CZK bn)							
Financial leasing companies	265.2	265.1	259.3	253.1	261.4	281.5	7.7
Other lending companies	67.7	71.3	70.5	70.3	72.2	47.0	-34.9
Factoring and forfaiting companies	19.5	19.7	16.6	18.7	20.9	19.3	-7.8
Relative share of the sector's assets (in %)							
Financial leasing companies	75.3	74.4	74.9	74.0	73.7	80.9	9.8
Other lending companies	19.2	20.0	20.3	20.6	20.4	13.5	-33.6
Factoring and forfaiting companies	5.5	5.5	4.8	5.5	5.9	5.5	-6.1

Source: CNB – ARAD, MoF calculations

In 2015, the total volume of the financial leasing companies' assets accelerated its growth (growth by 7.7%) to CZK 281.5 billion. During the monitored period, the loans provided by these companies grew by 11.7% to CZK 204.6 billion. Then, this item represented 72.7% of this partial segment's assets. The total assets growth confirms the trend of a recovery in the past year. Consequently, the volume of assets begins approaching its maximum value, which was CZK 309.5 billion in the end of 2008.

The other lending companies reported a significant year-on-year decrease of their total assets, whose volume dropped by more than a third. The drop by CZK 25.2 to 47.0 billion occurred after a 4-year period, during which the volume of the segment's total assets did not significantly change. In 2015, the volume of provided loans decreased by 35.9%, i.e. from CZK 54.6 to 35.0 billion. The volume of short-term loans then decreased by more than 44%. However, these falling indicators of the segment of the other lending companies may be basically explained by the fact that one of the subjects became a bank during the monitored period.

At the end of 2015, the total assets volume of the factoring and forfaiting companies was CZK 19.3 billion and that represented a drop by 7.8%. The development observed during the past two years reversed. During that period, the volume of the segment's total assets used to grow at a two-digit percentage rate. In terms of credit activity, this segment is traditionally dominated by short-term loans provided to residents. These loans represented 84.4% of the provided loans volume and 73.6% of assets. The volume of short-term loans provided to non-residents then represented about 13% of the sector's credit activities. However, compared to the more than quintuple growth in 2014, there was only a 10.7% growth in 2015.

[48] The development of the indicators concerning the non-banking funding providers was affected by the fact that during 2015, one subject of the segment of other lending companies became a bank.

6. CAPITAL MARKET

In 2015, the global capital market was affected by multiple various and contradictory developments. The most significant ones included the panic on the Chinese stock markets in June 2015, resulting from generally worse than expected macro-data from the Chinese economy, massive lending, and growing concerns about further falling dynamics of the Chinese economy's growth. The Chinese central bank responded to the falling economy and markets by technical measures and renminbi devaluation. Another important development was the dramatic drop of the oil products (and other commodities) prices and their generally greater supply exceeding demand. On one hand, it supported the economic growth in countries who are net raw material importers and it also maintained the market shares of oil products exporters (especially of the OPEC members), whose mining costs are lower, especially of the OPEC members; however, on the other hand, the decline of prices caused multiple budgetary and economic problems to the countries exporting commodities. One should mention turbulences on the bond market during the first half of the year, when the developments of multiple European markets reflected the fluctuating conditions of the Greek public finances. In June 2015, Greece suffered a technical default and yields of its 10-year government bonds temporarily reached up to 18.8% p.a. However, the majority of countries saw their bond yields falling.

Regarding the monetary policy, the key decision affecting the capital markets was made in January by the ECB. It decided to purchase government bonds of the Eurozone member states together with government agencies' and European institutions' bonds (so-called quantitative easing) in the amount of EUR 60 billion a month.[49] The ECB responded to the deflation risk faced by the Eurozone. Contrary to that, in December 2015, Fed decided to increase interest rates, so-called federal fund rates. For the first time since 2008, the Fed prime rate was increased by 0.25 p.p. to the 0.25-0.50% p.a. range. Last but not least, it is necessary to mention the abandonment of the exchange rate commitment of the Swiss franc. The Swiss National Bank has not let its currency drop against euro below the 1.2 CHF/EUR level. The step exchange rate appreciation significantly affected the payments of foreign currency loans especially in Poland, Hungary, Croatia or Austria and impacted the capital market instruments as well.

The general environment of prevailing low interest rates, expansive monetary policy and economic recovery contributed to the price growth and valuations of multiple asset segments on the capital markets. However, in 2015, the market activities often did not exceed the volumes of issuance reported in the previous year. Nevertheless, this was often caused by a relatively higher comparative base. Low interest rates on usually safer investments make investors search for yields elsewhere, and that raises concerns over risk underestimation. There are also permanent doubts about the valuations of some assets and the sustainability of debt payments concerning some issuers (for example, so-called Eurozone peripheries). A potential future decrease of asset prices caused, for example, by growing risk premium or unfavourable economic development could be reinforced by the market's limited ability to absorb sell-offs due to a decreasing trading liquidity. The declines of asset prices in capital markets could subsequently negatively affect the balance sheets of entities beyond the capital markets.

Stock Market

After three years of growth, the global stock markets measured by the MSCI World stock index, which covers the development of more than 1,600 stocks of the 23 developed stock markets of the world, decreased by 2.7%. Upon adding the other 23 developing markets (therefore, a total of 2,400 stock markets), the 2015 development may be illustrated through the wider MSCI All Country World index drop by 4.3%.

Table 6.1: Values of global stock indices

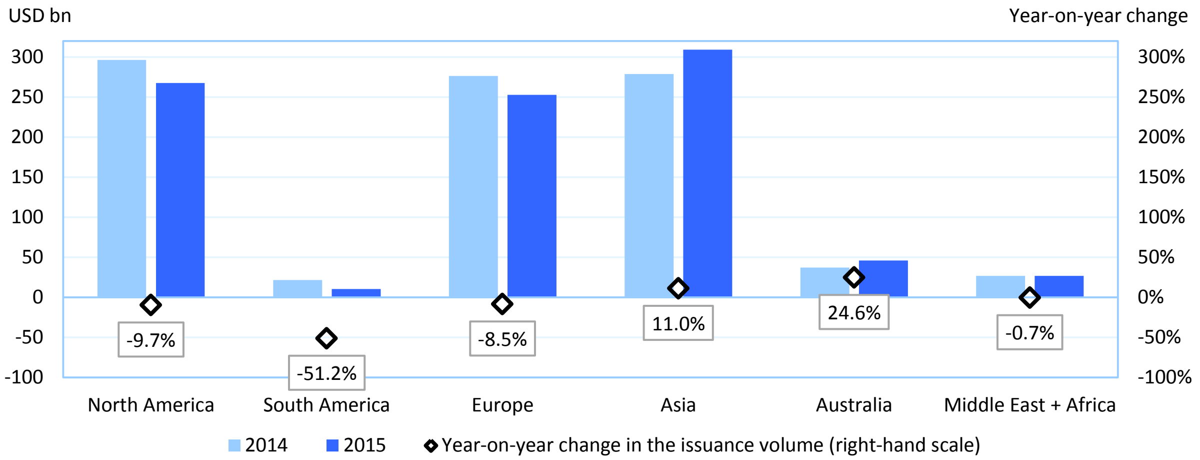
Stock indices		2010	2011	2012	2013	2014	2015
MSCI World	as at 31 Dec	1,280.1	1,182.6	1,338.5	1,661.1	1,709.7	1,662.8
	change (%)	9.6	-7.6	13.2	24.1	2.9	-2.7
MSCI ACWI	as at 31 Dec	330.6	299.5	339.7	408.5	417.1	399.4
	change (%)	10.4	-9.4	13.4	20.3	2.1	-4.3

Source: Thomson Reuters, MSCI, MoF calculations

[49] With effect from April 2016, the program value was increased to EUR 80 billion. In June, the program will be expanded through the purchase of corporate bonds issued by non-banking companies that meet the given criteria in the Eurozone. The deposit rate was reduced as well.

In terms of the volume of issuance on the global stock markets, there was a year-on-year 2.5% drop in 2015. The biggest drops were experienced by the volume of issuance on the Latin America countries, which reported their drop of 51.2% to the total volume of USD 10.5 billion. The second biggest drop was incurred by the North-American issuances that dropped by about USD 29.0 billion to USD 267.4 billion. Similar drops were reported by the European stock markets as well. The only growing stock markets were in Asia and Japan. Their total volume was USD 30.5 billion (11.0%). In Australia, it was by USD 9.1 billion (24.6%).

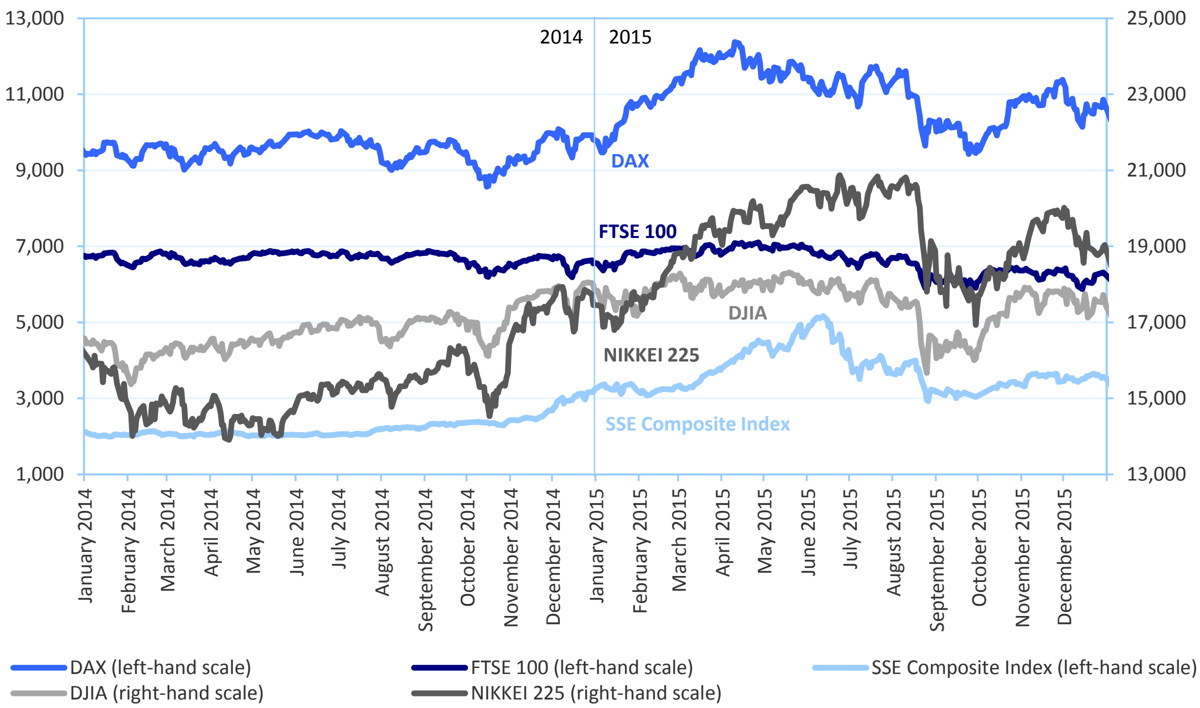
Graph 6.1: Issuance activity on global stock markets, according to the residency of the issuer



Source: Dealogic, MoF calculations

In 2015, the most profitable stock index of the monitored economies was the German DAX, which reported its year-on-year growth of 9.6%. During the first half of the year, it reached its maximum of 12,375 points. However, during the second half of the year, following the worldwide drop of stock markets, corrections took place, and the DAX index dropped to 10,743 points in the end of the year. The Chinese SSE Composite Index ranked right behind it with its year-on-year growth of 9.4%. It was followed by the Japanese Nikkei 225, which grew by 9.1%.

Graph 6.2: Development of major global indices[50]



Source: Market organizers, MoF calculations

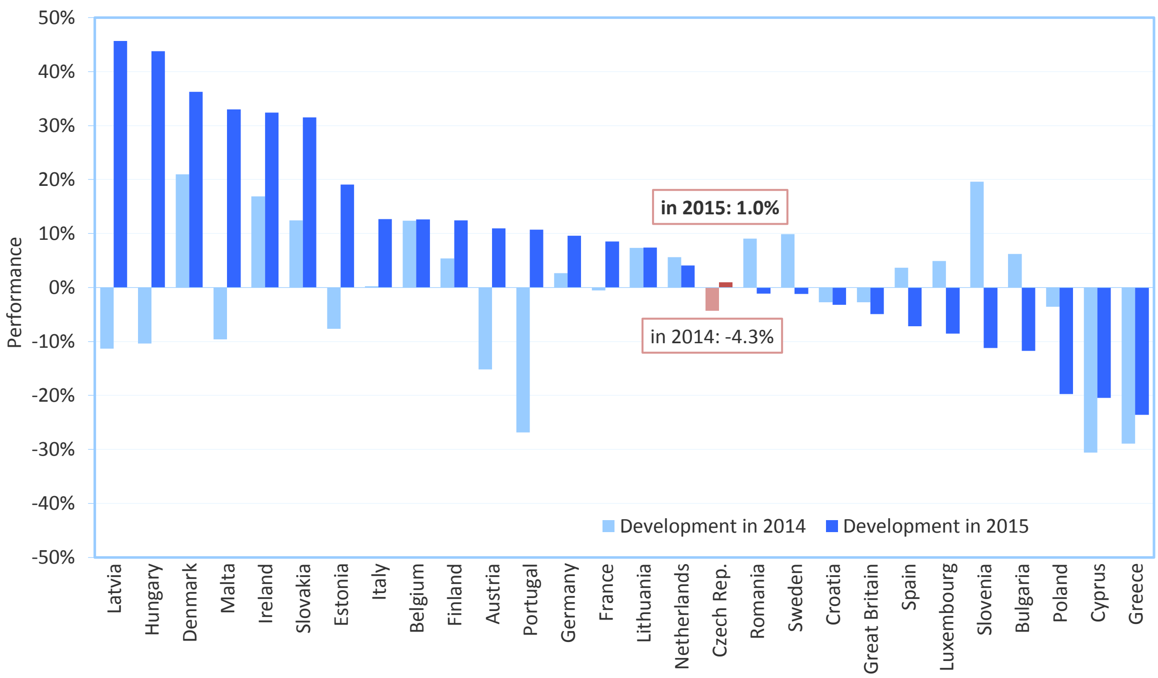
50 The data represents the daily closing values of the indices.

Contrary to that, negative figures were featured by the American and British index when Dow Jones Industrial Average (DJIA), composed of the 30 most traded American companies dropped by 2.2% and did not continue in its phenomenal six-year development in black figures. Contrary to that, British index FTSE 100 dropped by 4.9% and continued in its slight decrease like in 2014 (its drop was 2.7%). Both drops were primarily caused by the decline of commodity prices.

While reviewing the European stock indices, one may observe different developments across the individual states. The best results were achieved by the Lithuanian OMX Riga index, which grew by unbelievable 45.7% in 2015. The second fastest growing European index was the Hungarian BUX index that grew by 43.8%. The third most growing index (in 2014, this index was the best performing European index with the growth of 20.9%) was the Danish OMX Copenhagen 20 index with its year-on-year growth of 36.2%. It is also necessary to mention the development of the Maltese MSE index, which reversed its negative 2014 trend into the growth of 33.0% in 2015. The Irish ISEQ 20 index ranked fifth; however, right behind the higher ranking indices. In 2015, it grew by 32.4%.

On the other hand, the South European indices were the worst performers. It was mainly the Greek ATHEX 20 index, whose year-on-year drop was 23.6%, i.e. it continued in its double-digit decrease from 2014. In July 2015, the Greek stock exchange had even to interrupt its trading for a month due to the local critical financial sector and public finances development. The second greatest drop was experienced by the Cyprian CyMAIN index. It dropped by 20.5% when the Cyprian banks, like in Greece, completed multiple write-offs. In 2015, the third worst development was reported by the Polish WIG 20 index that dropped by 19.7% (see below).

Graph 6.3: Performance of significant stock exchange indices in the EU[51]



Source: Market organizers, MoF calculations

Within the Visegrad Group, besides the already mentioned Hungarian BUX index (43.8%), the Slovak SAX grew strongly as well. Its year-on-year increase reached 31.5%. The Czech PX index did not end up in red figures like in 2014; however, it only grew 1%. This low growth resulted from contradicting impacts of constituents when the solid growths of the Erste Group Bank, Unipetrol, and Pivovary Lobkowicz Group stocks were reduced by the drop of the ČEZ, Vienna Insurance Group, and Stock stocks (see below). The only index, which dropped in

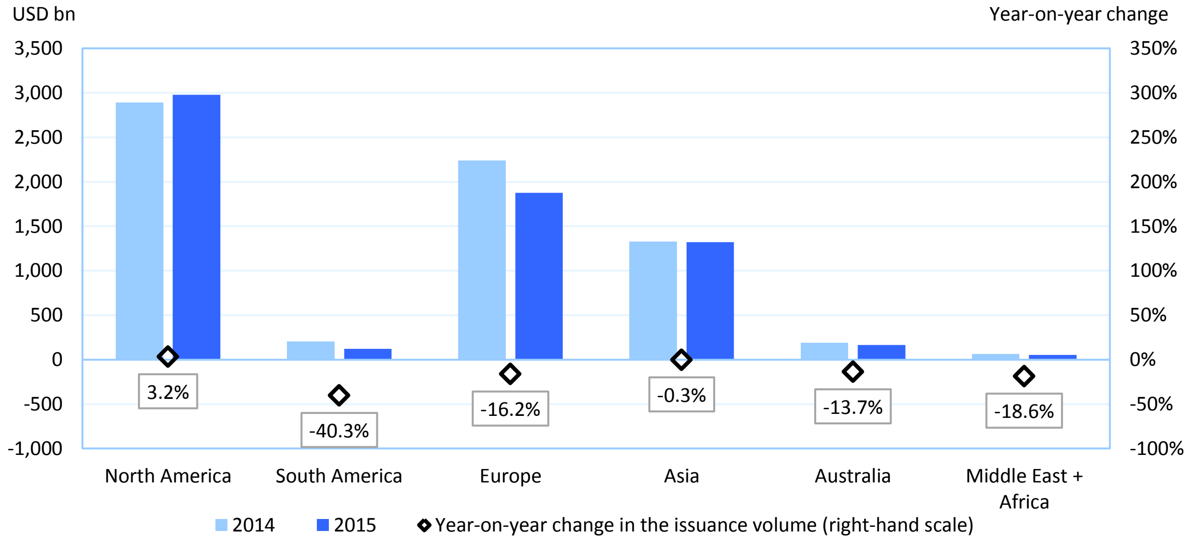
51 Index performances are expressed through the daily closing values of the following indices in the end of a given year in their domestic currencies: Austria: ATX Austrian Traded Index; Belgium: BEL 20 Index; Bulgaria: SOFIX; Croatia: Crobex Index; Cyprus: FTSE/CySE 20; Czech Republic: PX Index; Denmark: OMX Copenhagen 20; Estonia: OMX Tallinn GI; Finland: HEX25 Index; France: CAC 40 Index; Germany: DAX Index; Great Britain: FTSE 100 Index; Greece: FTSE/ATHEX 20; Hungary: Budapest SE Index; Ireland: ISEQ 20 Index; Italy: FTSE MIB; Latvia: OMX Riga; Lithuania: OMX Vilnius GI; Luxembourg: LuxX; Malta: MSE; Netherlands: Amsterdam Exchanges Index; Poland: Warsaw SE WIG-20 Single Market Index; Portugal: Euronext Lisbon PSI 20 Index; Romania: Bucharest SE BET Index; Slovakia: SAX Index; Slovenia: Ljubljana Stock Exchange SBI TOP Index; Spain: IBEX-35; Sweden: OMX Stockholm 30 Index.

the Visegrad Group, was the Polish WIG 20 index, that dropped by 19.7%. It was attributed to the concerns about the political risks and transfer of assets from a private pension system to the public budget when in 2014, the Polish pension funds had to transfer over a half of their assets into the Polish state social insurance system.

Bond Market

In 2015, the global issuance on bond markets decreased by 3.9% in total (about USD 250.6 billion). The only growing geographical area per the volume of issues was the North America where the Canadian bonds did decrease by 14.4%; however, this decrease was compensated by the U.S. market growth of 3.2%. The North American area grew by USD 88.7 billion in total. The other continents were partially affected by the global decrease of interest rates, which made financing on the capital market cheaper; however, they simultaneously encouraged the reduction of interest rates of loans provided by credit institutions, which, unlike the capital market, are not associated with any specific fixed costs amount (prospect, depository fees, etc.). The limited issuance activity simultaneously affected the relative cash surplus. The greatest decrease was recorded on the European bond markets where the year-on-year issuance volume dropped by USD 362.9 billion to USD 1.88 trillion.

Graph 6.4: Issuance activity on global bond markets, according to the residency of the issuer



Source: Dealogic, MoF calculations

As it was already stated above the bond yields mostly dropped, however there were some exceptions. The average 10-year generic government bond rates decreased by tens to hundreds of basis points. Out of the monitored countries, the 10-year Hungarian government bonds decreased the most (by 138 b.p. at the average) to 3.50% p.a. The second biggest decrease (by 116 b.p.) was recorded by Italy at the average 1.71% p.a., and the third biggest decrease occurred in Spain whose average yield of 10-year government bonds dropped by 97 b.p. to 1.75% p.a. A relatively big decrease also occurred in the case of average annual rates in the Czech Republic (by 87 b.p.) to 0.72% p.a. The absolutely lowest average values of 10-year government bonds in the monitored countries were reached in Japan (0.36% p.a.) and Germany (0.54% p.a.). Year-on-year increases of average interest rates applied, for example, to the Greek bonds, which grew by 321 b.p. to 10.15% p.a., the Russian Federation's bonds (growth by 194 b.p. to 11.37 % p.a.), and the Brazilian government bonds (growth by 141 b.p. to 13.75% p.a.).

Nevertheless, one cannot generally see the growing government bond yields only negatively in terms of high state budget financing costs. Relatively higher yields are often searched for by investors who are less averse to risk. Last but not least, we must not forget the fact that multiple institutional investors (banks, investment and pension funds) holds great amounts of relatively low risk government bonds with relatively low yields in their portfolios. However, low yields increase the price of their current relatively profitable assets. Once interest rates begin growing, as one may expect in the future, the prices of these instruments will decrease in their portfolios and reduce the appreciation from the past.

Table 6.2: 10-year government bond yields[52]

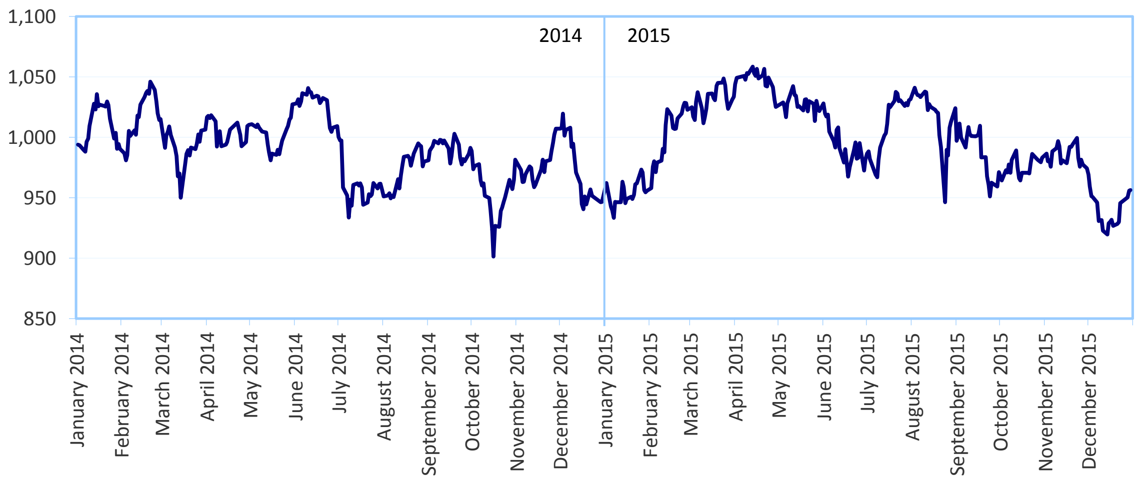
Yield (% p.a.)	At the end of 2014	At the end of 2015	Year-on-year change (b.p.)	Average in 2014	Average in 2015	Year-on-year change (b.p.)
Austria	0.71	0.90	18.6	1.49	0.75	-73.7
Belgium	0.82	0.98	15.3	1.70	0.85	-84.5
Brazil	12.43	16.49	406.5	12.34	13.75	140.8
Canada	1.79	1.40	-39.4	2.24	1.53	-71.1
Czech Republic	0.74	0.60	-14.5	1.59	0.72	-87.1
Denmark	0.84	0.95	11.4	1.41	0.73	-68.5
France	0.84	0.99	15.6	1.66	0.85	-81.6
Germany	0.54	0.63	9.3	1.24	0.54	-70.0
Great Britain	1.76	1.96	20.5	2.51	1.83	-68.5
Greece	9.60	8.39	-120.8	6.95	10.15	320.7
Hungary	3.65	3.32	-33.2	4.88	3.50	-137.8
China	3.65	2.86	-78.6	4.18	3.40	-77.9
India	7.86	7.76	-9.9	8.58	7.76	-81.7
Italy	1.89	1.60	-29.8	2.88	1.71	-116.3
Japan	0.33	0.27	-5.8	0.55	0.36	-18.9
Netherlands	0.68	0.79	10.9	1.45	0.69	-75.4
Poland	2.54	2.95	41.4	3.52	2.71	-80.7
Russia	14.09	9.74	-435.0	9.44	11.37	193.7
Spain	1.61	1.78	17.1	2.73	1.75	-97.3
USA	2.17	2.28	10.1	2.53	2.13	-39.9

Source: Thomson Reuters, MoF calculations

6.1. Regulated and OTC Market in the Czech Republic

During the first half of the year, in the Czech Republic, the PX index reported profit of up to 11.8% and reached 1,058.4 points; however, the 1,060 points level was unachievable, like in 2014. During the year, the index experienced fluctuations similar to those, which occurred in 2014, and varied from 919.7 to 1,058.4 points. Traditionally, the first half of the year was more remarkable than the rest of the year due to the paid dividends and other factors. Besides the domestic factors, the market responded to the situation in the world (for example, the dealing with the Greek public finances and concerns about the global economy's condition). The whole 2015 trading than eventually reported a 1% growth of the index value.

Graph 6.5: PX Index Development[53]



Source: PSE

[52] These are bid yields of generic 10-year government bonds.
[53] The data represents the index daily closing values.

It is clear from Table 6.4 that the PX index had been slightly decreasing from 2012 to 2014; however, in 2015, this trend reversed, and the index ended the year with a minor year-on-year growth. The same reversal of the trend may be observed in some other indices of the Prague Stock Exchange (PSE) as well, for example, the PX-TR index that takes into account the individual stocks' dividends paid and the PX-GLOB index, which includes a wide portfolio of stocks.

Table 6.3: PSE indices value[54]

Stock Indices		2010	2011	2012	2013	2014	2015
PX	as at 31 Dec	1,224.8	911.1	1,038.7	989.0	946.7	956.3
	change (%)	9.6	-25.6	14.0	-4.8	-4.3	1.0
PX-TR	as at 31 Dec	1,500.8	1,181.3	1,397.9	1,389.4	1,384.9	1,455.9
	change (%)	14.8	-21.3	18.3	-0.6	-0.3	5.1
PX-GLOB	as at 31 Dec	1,527.4	1,160.5	1,295.8	1,239.5	1,183.8	1,241.0
	change (%)	9.0	-24.0	11.7	-4.3	-4.5	4.8

Source: PSE, MoF calculations

The performance of the individual PX index constituents in 2015 is illustrated by Table 6.5. Outside the PX stock index, Kofola ČeskoSlovensko a.s. was accepted for trading on the so called prime market in September 2015. However, this step resulted in no public offering. It was only so-called technical listing, which related to the company headquarters move from Poland to the Czech Republic. Also, in the end of 2015, the trading of CETIN (Česká telekomunikační infrastruktura, a.s.) ended. This was result of the O2 issuance spin-off, when in June 2015, its free market trading began.

Table 6.4: Companies included in the PX index[55]

As at 31 Dec	Market capitalisation (CZK mn)	Trade volume (CZK mn)	Share price at the end of 2014	Share price at the end of 2015	Year-on-year change (%)
Erste Group Bank	333,525	23,557	530	776	46.4
ČEZ	239,029	59,675	591	444	-24.8
Komerční banka	188,149	53,391	4,740	4,950	4.4
Vienna Insurance Group	88,154	3,610	1,032	689	-33.3
O2 Czech Republic	77,865	13,933	233	251	7.7
UNIPETROL	29,014	2,600	131	160	22.6
Philip Morris ČR	22,963	2,415	10,820	11,999	10.9
Stock Spirits Group	10,170	310	80	51	-36.2
Central European Media Enterprises	9,099	675	69	67	-2.4
Pegas Nonwovens	6,747	4,409	640	731	14.2
Fortuna Entertainment Group	4,186	896	120	81	-33.2
Pivovary Lobkowicz Group	2,424	273	175	207	18.9
New World Resources	666	205	0.42	0.10	-76.2

Source: PSE, MoF calculations

In 2015, the most important segment of regulated market per trading volume was still represented by shares whose total traded volume reached CZK 167.9 billion. During 2015, the trend of trading activity with shares changed since its decline in previous years was followed by an increase of traded volume by 9.4% in 2015. The most traded share issues over the course of the year continued to be the traditionally popular shares of ČEZ, Komerční banka, and Erste Group Bank. The second most important segment of regulated market per trading volume was represented by bonds that reported a decrease by more than 99% in 2013. It was caused by a new

[54] The data represents the daily closing values of the indices.
[55] The data represents the daily closing values of the indices.

definition of exchange trades and the implementation of the new Xetra system. In 2015, the annual bond trading volume decreased to CZK 5.1 billion. That represented about 3% of all the PSE trading.

Table 6.5: The volume of exchange trades on the PSE[56]

Annual (CZK bn)	2010	2011	2012	2013	2014	2015	Year-on-year change	
							Abs.	(%)
Shares	389.9	371.0	250.6	174.7	153.5	167.9	14.4	9.4
Structured products	0.2	0.1	0.1	0.1	0.6	0.3	-0.3	-53.6
Debt securities	529.9	628.0	594.2	1.9	8.2	5.1	-3.1	-38.0
- public sector	511.2	606.4	566.0	0.0	0.0	0.0	0.0	-
- corporate sector	5.2	3.8	9.4	1.9	8.2	5.1	-3.1	-38.0
- financial sector	12.7	17.8	18.7	0.0	0.0	0.0	0.0	-
Total	920.0	999.1	844.8	176.8	162.3	173.3	11.0	6.8

Source: PSE, MoF calculations

Regarding off-exchange trades (OTC), PSE experienced a significant growth of its segment of bonds registered with PSE. The year-on-year growth of 24.5% was the biggest increase of trade volume to CZK 548 billion in the end of 2015. For comparison purposes, the exchange bond trades represent about 0.9% of the OTC trades.

Table 6.6: The volume of OTC trades on the PSE

Annual (CZK bn)	2013	2014	2015	Year-on-year change	
				Abs.	(%)
Shares	11.0	5.0	4.5	-0.5	-10.2
Structured products	0.0	-	-	-	-
Debt securities	624.3	440.1	548.0	107.9	24.5
Total	635.3	445.1	552.5	107.4	24.1

Source: PSE, MoF calculations

In 2015, the other stock exchange, RM-System, česká burza cenných papírů a.s. (RM-S), which primarily focuses on small and mid-size investors, experienced trading stagnation. On the one hand, the stock trading grew by about CZK 23.1 million, on the other hand, the bond trading decreased by CZK 24 million. However, the trading of RM-S varies below the trading level of PSE.

Table 6.7: The volume of exchange trades on the RM-System

Annual (CZK bn)	2010	2011	2012	2013	2014	2015	Year-on-year change	
							Abs.	(%)
Shares	6,795.4	7,795.6	5,918.0	4,709.3	3,990.6	4,013.6	23.1	0.6
Certificates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Debt securities	39.9	24.5	2.2	14.4	32.7	8.7	-24.0	-73.4
Total	6,835.3	7,820.1	5,920.2	4,723.7	4,023.2	4,022.3	-0.9	0.0

Source: RM-S, MoF calculations

The number of titles registered with PSE grew in 2015. This applied to the shares and structured products (investment certificates).

[56] The structured products include certificates and warrants.

Table 6.8: Number of registered issues on the PSE

As at 31 Dec	2010	2011	2012	2013	2014	2015	Year-on-year change (%)
Shares	27	26	28	26	23	25	8.7
Debt securities	106	95	98	110	116	112	-3.4
- public sector	22	21	20	21	24	26	8.3
- corporate sector	16	15	27	32	38	42	10.5
- financial sector	68	59	51	57	54	44	-18.5
Structured products	44	81	30	103	68	89	30.9
Total	177	202	156	239	207	226	9.2

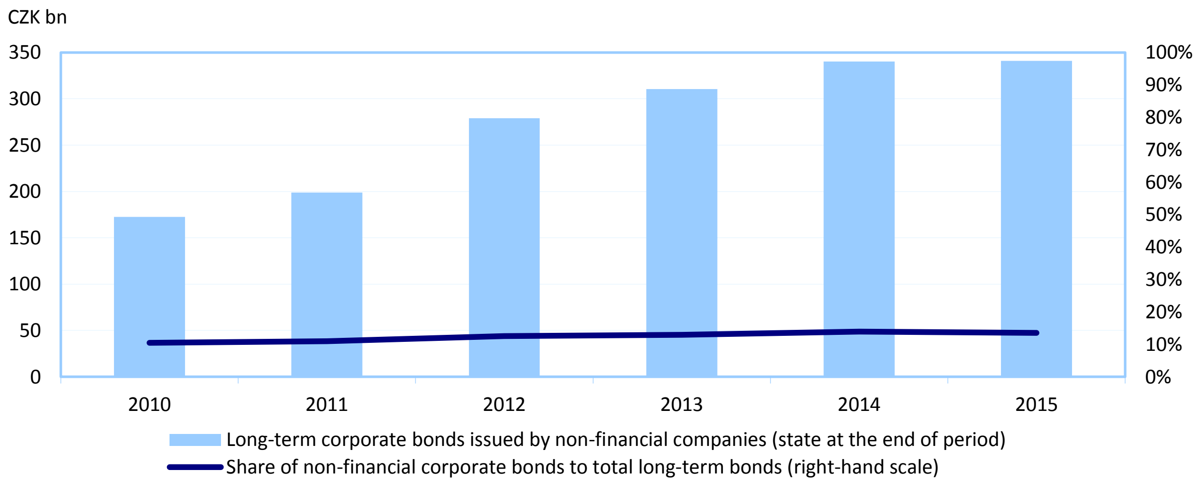
Source: PSE, MoF calculations

The long-term trade volume decrease at PSE and the RM-S retail exchange, which began in 2007, ended in 2015, and the regulated and OTC trades reported their overall growth. The causes of the trade volume increase include the low yields of other assets, which motivated the investors to prefer assets traded on capital markets.

However, the future development of both Czech security exchanges is unclear in a long term. The small capital market in the Czech Republic will be exposed to the same impacts as the other developed markets; therefore, one may expect the changing prices of oil and exchange rates to cause increased volatility on the global financial markets, including the capital ones. In the beginning of 2016, the two biggest European stock exchanges – Deutsche Börse and London Stock Exchange, announced their merger into one group. The biggest European stock exchange will then become a significant competitor to local subjects.

Conversely, the capital market might be supported by long-term low interest rates that will make the investors search for opportunities to achieve returns on their funds. The low interest rates and relatively stable rating received by the Czech economy could lead to further growth in the market of bonds issued by non-financial companies. These companies could then use a different form of funding, not only through the traditional way, i.e. bank lending. As illustrated in the following Graph 6.6, the market of long-term corporate bonds of non-financial companies was growing during the whole monitored period. In the end of 2015, its issued bonds reached the volume of CZK 340.8 billion. For clarification purposes, in the end of 2015, the non-financial companies featured bank loans of CZK 920.8 billion (see chapter 5.5. Client Bank Deposits and Loans).

Graph 6.6: Development of long-term corporate bonds issued by domestic non-financial companies[57]



Source: CNB – ARAD, MoF calculations

The Power Exchange Central Europe (PXE), known as the Prague Energy Exchange until 2009, is a subsidiary of the Prague Stock Exchange and is used primarily for the trading of derivative contracts. In 2015, its volume of

[57] Data of long-term bond issuance realized by Czech residents, regardless of the location, method, or currency. The aggregate sum of the total long-term bonds matches the sum of issuances of government institutions, credit institutions, other financial institutions, and non-financial companies.

regulated and OTC trades grew by 11.0% to EUR 875 million. The most important segment of this market was still represented by the energy futures with financial settlement. These trades dropped on the Czech market by 15.3%. However, trading on other markets grew by 83.6%.

Table 6.9: Trading volumes on the PXE

Trading volume (EUR mn)	2010	2011	2012	2013	2014	2015	Year-on-year change	
							Abs.	(%)
Energy futures (CR)	957.9	1,212.6	847.7	974.3	609.1	515.8	-93.3	-15.3
Energy futures (other markets)	213.4	114.9	95.9	186.9	162.3	298.1	135.8	83.6
Energy spot trades	3.9	1.7	-	-	-	-	-	-
Gas trades	-	-	-	-	16.8	61.1	44.3	262.8
Total	1,175.2	1,329.1	943.6	1,161.2	788.3	875.0	86.7	11.0

Source: PXE, MoF calculations

6.2. Securities Dealers and Asset Management

The securities dealers recorded their year-on-year trade volume decrease by 36.4% to CZK 59 trillion. This whole significant trade volume decrease by more than a third was jointly caused by the three groups of dealers. The biggest decrease was recorded by the non-banking securities dealers, whose volume of concluded trades was CZK 20.7 trillion smaller. They were followed by the banking securities dealers whose volume of concluded trades was CZK 13.1 trillion smaller. The smallest decrease was recorded by the investment companies. It was CZK 14.1 billion. The decrease disproportion applied to property relationships as well. The decrease recorded by the banking securities dealers was mostly generated in the own account trading item; whereas the decrease recorded by the non-banking securities dealers mostly occurred in the managed trades segment. In 2015, the dominant position of the banking securities dealers further grew since, from the perspective of the whole sector, the banking securities dealers completed 78.7% of all the trades (in 2014, about 64% of all the trades).

Table 6.10: Selected indicators for the securities dealers sector[58]

As at 31 Dec (excl. derivatives, CZK bn)	2014	2015				Year-on-year change	
	Total	Bank IF	Non-bank IF	Investment firms	Total	Abs.	(%)
Total number of licensed entities	66	28	34	9	71	5	7.6
Total transactions value	92,829.4	46,454.0	12,482.1	62.7	58,998.8	-33,830.7	-36.4
of which: management	31,289.5	102.2	9,669.4	62.7	9,834.3	-21,455.2	-68.6
procurement	7,726.8	5,458.4	2,167.9	0.0	7,626.3	-100.4	-1.3
for own account	53,813.2	40,893.4	644.7	0.0	41,538.1	-12,275.1	-22.8
Value of managed funds	676.8	65.9	381.7	251.5	699.1	22.3	3.3
Value of clients' assets	3,330.8	3,047.2	491.8	258.8	3,797.8	467.0	14.0
Number of clients (according to contracts, 000's)	1,007.8	906.1	288.7	1.0	1,195.8	188.0	18.7

Source: CNB, MoF calculations

Asset Management

In 2015, the volume of assets entrusted to assets managers grew year-to-year by 2.2% to approximately CZK 1.2 trillion when the majority of financial groups recorded the growth of their volumes of managed assets. The biggest absolute growth was achieved by the groups of Komerční banka and Československá obchodní banka. After a 3-year decrease, the concentration of the assets management market slightly increased when the three biggest financial groups took control of 58.1% of the managed assets, which was by 1.1 p.p. more than in 2014.

[58] The value of derivative is available only at the level of the value of the underlying assets; therefore it is not included in the table.

Table 6.11: Financial groups by value of assets under management[59]

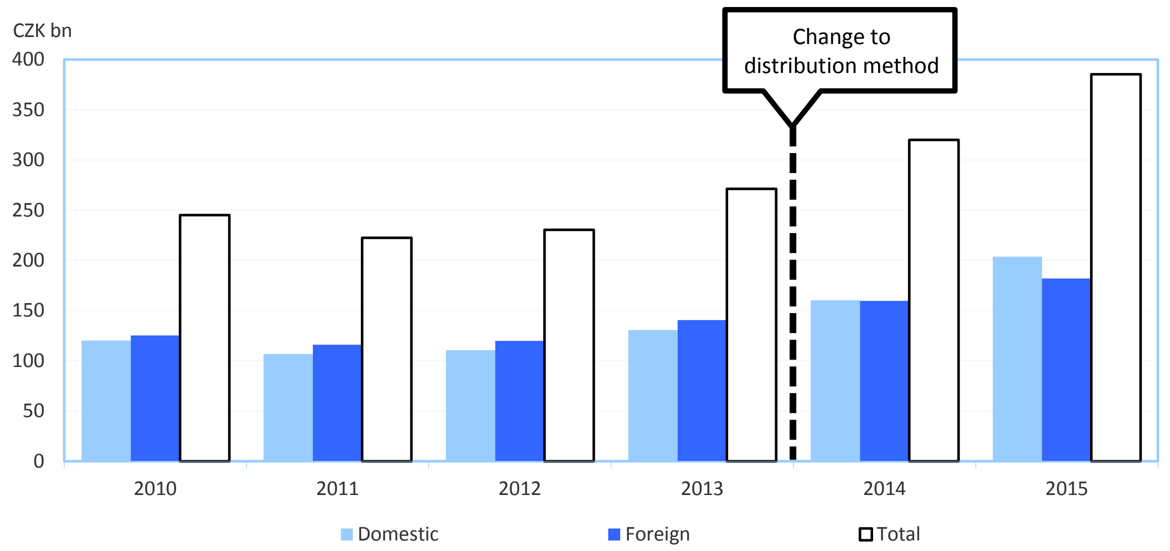
As of 31 Dec (CZK bn)	2014	2015	Year-on-year change	
			Abs.	(%)
Generali Investments CEE	241.5	248.5	7.0	2.9
Česká spořitelna (group)	219.0	224.5	5.5	2.5
ČSOB Asset Management, investiční společnost	185.7	199.8	14.1	7.6
Komerční banka (group)	140.2	157.0	16.8	12.0
NN (group)	115.0	100.8	-14.2	-12.3
AXA Investiční společnost	58.0	61.4	3.4	5.9
Conseq Investment Management	37.1	41.7	4.6	12.5
Pioneer investiční společnost, a.s.	23.8	25.9	2.1	8.9
Raiffeisenbank	20.1	24.8	4.7	23.2
J&T INVESTIČNÍ SPOLEČNOST	12.6	17.8	5.2	40.9
Others	80.2	55.6	-24.7	-30.7
Total	1,133.2	1,157.8	24.6	2.2

Source: AKAT, MoF calculations

Investment funds

During the year 2015, the volume of assets in the collective investment funds grew by 20.4% or CZK 65.3 billion in absolute terms. In the end of 2015, a total of CZK 385.3 billion was invested in the funds. Out of that, the volume of assets in foreign funds grew during 2015 by CZK 22.2 billion, i.e. by 13.9%, and the domestic funds grew by CZK 43.2 billion, i.e. 26.9%. Therefore, the trend observed since 2014 that relates to the ratio of assets held by the foreign and domestic funds was confirmed. In 2014, the methodology of asset reporting in domestic mutual funds changed. Before that, their data used to match the volume of assets managed by the domestic funds. Based on the new methodology, data on mutual fund investments made in the Czech Republic is reported, i.e. the administrator's perspective was replaced by distribution perspective. However, the change to the distribution perspective did not significantly alter the figures of volume. The greater share of domestic funds was caused both by the popularity of domestic funds and the fact that a funds moved from abroad to the Czech Republic.

Graph 6.7: Allocation of investments in mutual funds by domicile[60]



Source: AKAT

[59] In the beginning of 2016, the last years' data was revised. This increased the volume of managed assets by CZK 30.5 billion, compared to the Report on the financial market development in 2014. The Česká spořitelna's group represents the value of managed assets of Česká spořitelna and REICO ivestiční společnost České spořitelny. Komerční banka's group represents the value of managed assets of Komerční banka and Investiční kapitálová společnost KB, a.s. The NN group represents the value of managed assets of NN Investment Partners and ING Bank N. V., organizační složka.

[60] In 2016, the 2014 data was revised.

As indicated in Table 6.15, in 2015, the biggest absolute inflow of funds was reached by the balanced funds whose assets grew by CZK 35.2 billion. In relative terms, they grew by 34.2%. They were followed by the equity funds, which grew by CZK 13.6 billion (23.6%). The increased volumes of assets managed by the balanced and equity funds resulted, among others, from the economic recovery and low interest rates, which change the preferences of investors from their focus on bond markets to equity markets. The biggest relative growth of assets was recorded by the real estate funds, which grew by 140.5%. Like in 2014, the bond and mixed funds continue maintaining their dominant positions among the individual types of mutual funds, and they jointly represent over 65.2% of the total managed volume of assets.

Table 6.12: Assets in individual types of mutual funds by domicile[61]

As of 31 Dec (CZK bn)	2014	2015			Year-on-year change	
	Total	Domestic	Foreign	Total	Abs.	(%)
Bond	101.3	65.4	47.5	112.9	11.6	11.4
Equity	57.7	28.3	43.0	71.3	13.6	23.6
Structured[62]	32.1	0.3	28.0	28.3	-3.8	-11.7
Mixed	102.9	80.4	57.8	138.2	35.2	34.2
Fund of funds	13.2	17.0	0.2	17.3	4.1	31.0
Money market	7.5	0.6	4.1	4.6	-2.8	-37.9
Real estate	5.3	11.5	1.2	12.6	7.4	140.5
Total	320.0	203.5	181.8	385.3	65.3	20.4

Source: AKAT, MoF calculations

A positive change of the volume of managed assets is affected by two factors – appreciation achieved by the funds and net sales. Net sales represent the change in fund assets resulting from the purchase and sale of investment units that do not have an effect on fund performance but only on the volume of assets. Table 6.13, which only shows the share certificates sold and purchased by the domestic subjects, clearly shows that in terms of net sales and appreciation, the domestic mixed funds ranked best in absolute terms. In the following years, the assets managed by mutual funds designated for the public could continue growing, especially if the economic recovery and impacts of low interest rates continued in the capital market segments as well.

Table 6.13: Net sales of investment units in domestic mutual funds

Mutual fund (CZK bn)	2010	2011	2012	2013	2014	2015
Bond	3.2	-1.1	3.0	0.5	3.7	6.5
Equity	0.6	0.8	0.3	0.8	2.2	5.7
Mixed	1.0	-1.0	0.7	3.7	8.5	17.7
Guaranteed	0.0	0.0	0.0	0.9	0.0	0.0
Fund of funds	1.1	2.0	0.3	9.2	12.1	3.9
Money market	-3.9	-8.2	-0.8	-1.0	-0.5	-0.6
Real estate	0.6	0.0	0.2	1.0	0.8	4.4
Total	2.7	-7.5	3.6	15.3	26.7	37.6

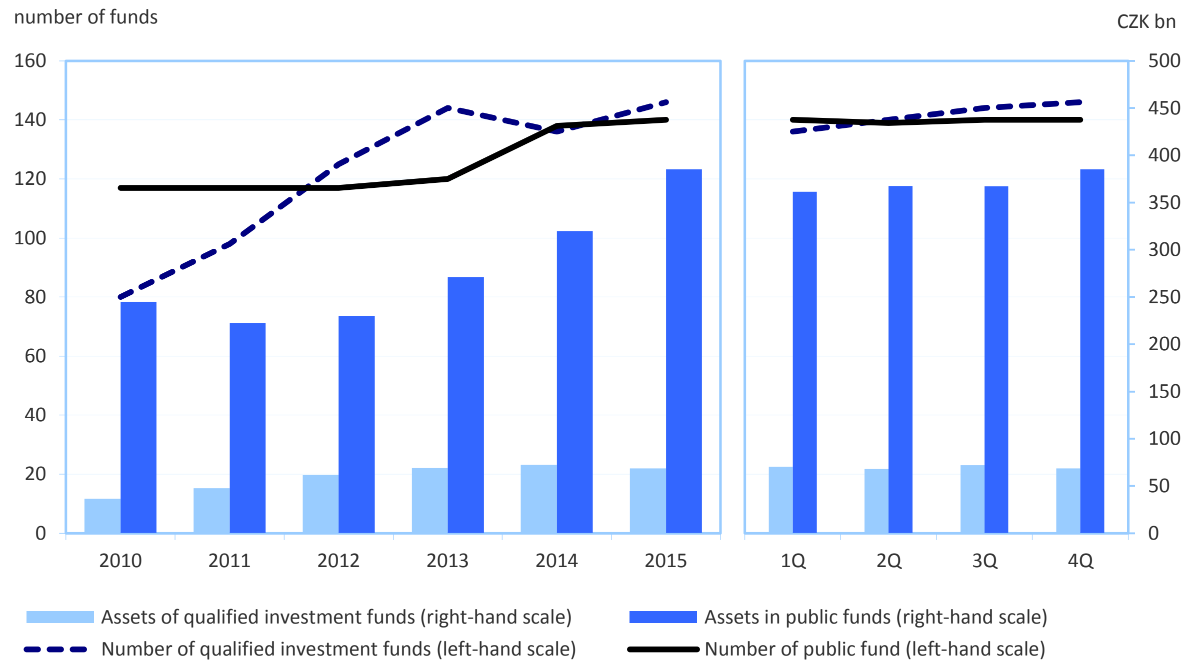
Source: AKAT

Qualified investment funds

Over the past three years, the sector of funds that are not designated for the general public, i.e. qualified investor funds, developed constantly. During the monitored six-year period, the total number of these funds grew by 66; however, only by two during the past two years. In 2015, the volume of assets managed by the qualified investor funds decreased by CZK 3.7 billion to CZK 68.5 billion and represented 17.8% of the volume of assets in the investment funds. A significant part of the qualified investor funds focuses on real estate; however, the interest in investments in the form of so-called private equity has been growing on a long-term basis.

[61] In 2016, the 2014 data was revised.
[62] The structured funds also include guaranteed and secured funds.

Graph 6.8: Structure of investment funds[63]



Source: AKAT, CNB

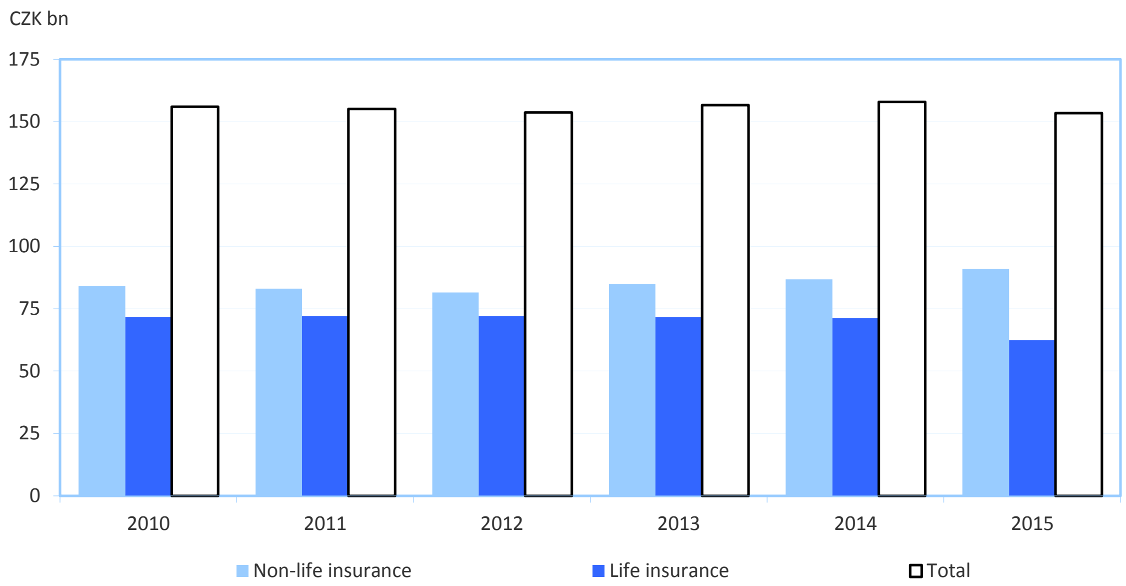
The volumes of assets managed by the mutual funds and qualified investor funds as of the end of 2015 are specified per the individual distributors in Tables A2.2, A2.3, and A2.4 in Appendix 2.

[63] In 2016, the 2014 data was revised, and it is reported as of 31 December of the given year.

7. INSURANCE

The insurance sector may be found stable on a long-term basis, and even 2015 did not represent any exceptional year for the insurance companies in terms of their underwritten risks. The total volume of gross premiums written reached CZK 153.4 billion. That represented a year-on-year decrease by 2.9%. While the gross premiums written in the non-life insurance segment kept its growing trend (4.9% growth), the life insurance segment continued in its decrease, which was much deeper (year-on-year by 12.3%) than in 2014. Regarding the past six-year period, the sector may be characterized as stagnant since the volume of its total gross premiums written fluctuated between CZK 153 and 158 billion (see Graph 7.1).

Graph 7.1: The volume of gross premiums written



Source: CNB – ARAD

Due to the economic cycle's growth phase and decrease of the gross premiums written, the total insurance penetration[64] slightly decreased again to 3.4% (by 0.3 p.p.). The indicator of insurance penetration together with the ratio between the life and non-life insurance segments (41:59), which slightly changed again to the detriment of life insurance, indicate that the Czech insurance market somewhat departs from the trends dominating the developed European insurance markets where the insurance penetration reaches twice or three times as high levels and the share of life insurance of the total volume of gross premiums written is about two thirds.

The Czech insurance market is sufficiently competitive and territorially diversified in terms of foreign owners. Approximately the same market share is kept by two international insurance groups – Generali CEE Holding (Česká pojišťovna and Generali pojišťovna) and Vienna Insurance Group (Kooperativa pojišťovna, Česká podnikatelská pojišťovna and Pojišťovna České spořitelny), which jointly represent more than 60% of the market. In the end of 2015, out of the total number of subjects[65] (55), 7 insurance companies provided only life insurance, 34 companies were registered as non-life insurance companies, and 14 insurance companies were mixed ones, i.e. they provided both life and non-life insurance.

Even if the insurance market responds to the economic conditions with some delay, one cannot expect its significant growth even despite the continuing economic recovery. This especially applies to its life segment since it was not possible to eliminate the barriers between the clientele and insurance companies or intermediaries offering their insurance products on a long-term basis. These problems fully showed themselves especially in life insurance; however, they apply to the whole insurance sector at the general level. They mainly rest in the overall complexity and insufficient transparency of some products, unfulfilled expected appreciation of reserve generating products and sometimes even unfulfilled expectations of insurance

[64] This indicator expresses the ratio of gross premiums written to nominal gross domestic product.
[65] Including the Czech Insurers' Bureau and excluding reinsurance company.

settlement amount in the case an insured event occurred. However, in connection with this, it is possible to state that the property of many households is underinsured, i.e. the insured amounts do not correspond to the actual value of the insured property. In addition, the strong majority of the population still sees insurance as a non-essential item, which may be easily cut-down in light of an unbalanced family budget.

7.1. Development of Life and Non-Life Insurance

The whole insurance market decreased; however, the non-life insurance segment continued to grow dynamically. Its gross premiums written grew by 4.9% to CZK 91 billion. Despite the decrease of the total number of insurance policies, the growth was primarily supported by the motor vehicle insurance segment, i.e. both the accident insurance and third-party liability insurance segments (they jointly represent about 44% of the non-life insurance) and the business insurance segment.

Table 7.1: Main indicators for the insurance sector

As at 31 Dec	2013	2014	2015	Year-on-year change	
				Abs.	(%)
Number of policies (in thousands)	27,321	28,157	27,748	-409	-1.5
of which: non-life insurance	19,252	20,417	20,355	-62	-0.3
life insurance	8,061	7,740	7,393	-347	-4.5
Number of newly concluded policies (in thousands)	11,874	11,955	10,861	-1,094	-9.2
of which: non-life insurance	10,738	10,889	9,920	-969	-8.9
life insurance	1,137	1,066	941	-125	-11.7
Total gross premiums written (CZK bn)	156.6	157.9	153.4	-4.5	-2.9
of which: non-life insurance	85.0	86.7	91.0	4.2	4.9
life insurance	71.6	71.2	62.4	-8.8	-12.3
Total gross claims paid (CZK bn)	100.6	105.0	99.7	-5.4	-5.1
of which: non-life insurance	49.2	46.7	48.5	1.8	3.8
life insurance	51.4	58.3	51.2	-7.1	-12.2
Total insurance penetration (%)	4.0	3.7	3.4	-0.3	-

Source: CNB – ARAD

The results of non-life insurance may be attributed to the economic recovery, which results in dynamic purchases of new and more expensive vehicles, entrepreneurs' bigger investments and interest in insurance. These entrepreneurs also increasingly utilize insurance of subsequent losses caused by operation interruptions that may often cause damages much greater than property losses themselves. The entrepreneurs increasingly favour liability insurance and coverage of all the common insurance risks, so called *all – risk*.

In 2015, the motor vehicle third-party liability insurance premium increased due to the increased insurance rates. However, this increase of insurance rates was not a flat rate increase. It was completed on the individual basis. The insurance companies continue in their deepening of insurance rate segmentation per various criteria. They mostly use vehicle owner data and vehicle type and age data. More risky drivers are penalized through higher insurance rates and, conversely, drivers with no recorded insured accidents did not feel any increased rates at all. The gross indemnification costs reached CZK 13.6 billion and their year-on-year growth was 14.2%. Due to the enormous growth of health damage-related indemnifications after the new Civil Code came into force, one may expect the insurance companies to continue slightly increasing their motor vehicle third-party liability insurance rates in 2016 as well.

As a result of the amendment of the Motor Third-Party Liability Insurance Act[66], the insurance premium non-payers' contribution to the guarantee fund of the Czech Insurers' Bureau. The fund is used to cover so-called uninsured losses. The market responds to this step rather negatively since unhealthy solidarity was introduced into the system; therefore, the numbers of uninsured vehicles may probably resume growing. Following this legislative measure, the insurance companies had to increase their contributions to this guarantee fund. This creates another pressure on increasing insurance rates.

In terms of natural catastrophic events, 2015 was relatively calm. Per the Czech Insurance Association's methodology, natural disasters caused insured assets losses of CZK 1.3 billion, and the insurance companies

[66] Act No 168/1999 Coll., Motor Third-Party Liability Insurance Act.

processed about 42 thousands events; therefore, the number was 25% higher than in 2014. Gales and hailstorms caused the biggest number of losses. During the past 6 years, the insurance companies processed about 418 thousand natural disaster-related insured accidents and paid CZK 24 billion in indemnifications of these catastrophic losses. For comparison purposes, in 2002, when the Czech Republic's territory was hit by a massive flooding, the total indemnification was CZK 37 billion. In connection with this, it is necessary to mention that based on the available statistical data, only about 60% of buildings and only a half of households are insured in the Czech Republic.

Some of the main life insurance indicators – gross premiums written and number of concluded policies – achieved the worst results over the last 6-year period and significantly affected the insurance sector's overall result. The absolute number of insurance policies decreased by 4.5%, and the number of newly concluded policies decreased year-on-year by significant 11.7%, i.e. to 941 thousand policies. The gross premiums written decreased by almost CZK 9 billion to CZK 62.4 billion. That represents a 12.3% year-on-year decrease. The enormous 27.8% premium decrease affected products with single paid premium; however, these products are not typical products representing insurance coverage. Products with regularly paid premium reported a decline as well. This development is even more serious due to the fact that regularly paid premium not only protects against daily risks but it is also a long-term instrument used to build one's financial reserves for retirement.

The unfavourable results of the life insurance segment may be attributed to a sum of multiple factors. The continuous lack of transparency of multiple life insurance products make the public not trust them; therefore, the interest in concluding life insurance policies declines. The currently low interest rate level also limits the attractiveness of products offered with saving or investment components. The life insurance reputation is not being improved by distribution since multiple intermediaries do not help to promote the long-term attribute of these products through their strategy of frequent so-called re-insuring. Per the analysis of the Czech Insurance Association, due to this negative phenomenon, within five years, about 55% of the life insurance policies will be closed and the clients will be exposed to all the resulting negative implications. It is primarily the minimum redemption in the case of policies with an investment component and duplicate payment of commission associated with other types of policies. The reserve-generating insurance policies are concluded for decades, which is reflected through their costs, including the paid commission calculation.

Another factor that reduced the life insurance attractiveness in 2015 was the fact that the reserve-generating policy holders[67] had to decide between keeping tax deductibility and the possibility of unscheduled withdrawals from this type of policies due to the amended Act on Income Tax that came into force and that significantly changed the conditions of applying exemptions through life insurance policies. This amendment allowed keeping one's exemptions only if his insurance policy does not allow any payments of any other income, which is not indemnification and does not lead to insurance policy termination. The law change prevents any avoidance of one's tax liability and social and health insurance payments in those cases when some employers used life insurance contributions as their alternative wage form without proper taxation of this income. Therefore, it was not possible to maintain the original tax benefits of insurance policies allowing unscheduled fund withdrawals. They had to be changed.

In the early 2015, CNB reduced the maximum limit of its technical interest rate[68] from 1.9% to 1.3%. This measure applies only to new life insurance policies with a guaranteed rate of return (capital policies) and is a response to the continuing decrease in the financial market interest rates. Once the amendment of the Act on Insurance transposing the Solvency II directive comes into effect, CNB will stop using this instrument in life insurance. Every insurance company will be responsible for setting its guarantee levels provided to its customers within its own risk management system.

7.2. Economic Results of Insurance Companies

In 2015, the insurance market reached a very favourable post-taxation economic result of CZK 11.4 billion. This represents an 85% year-on-year increase. The profit increase primarily resulted from the life insurance technical account result. Conversely, the insurance companies reported their significant decline of returns on

[67] In the period till 31 March 2015.

[68] The technical interest rate represents the guaranteed share of the yield from financial placement. It does not therefore include the increase in value of the total premium paid by the client, but only the share of the increase in the insurance reserve, i.e. the savings component of the premium.

their financial placements caused by the overall low level of interest rates amplified by the loose monetary policy of the majority of significant central banks. The achieved economic result may be considered sufficient for the sector's further development.

The insurance sector's total assets slightly decreased year-on-year by 0.8% to CZK 483.7 billion, out of which the financial placements represented 85%. The sector's capital adequacy grew by 4.8%. Conversely, the technical provision generation, compared to 2014, decreased by 3.6%, especially due to the decrease of the life assurance provision.

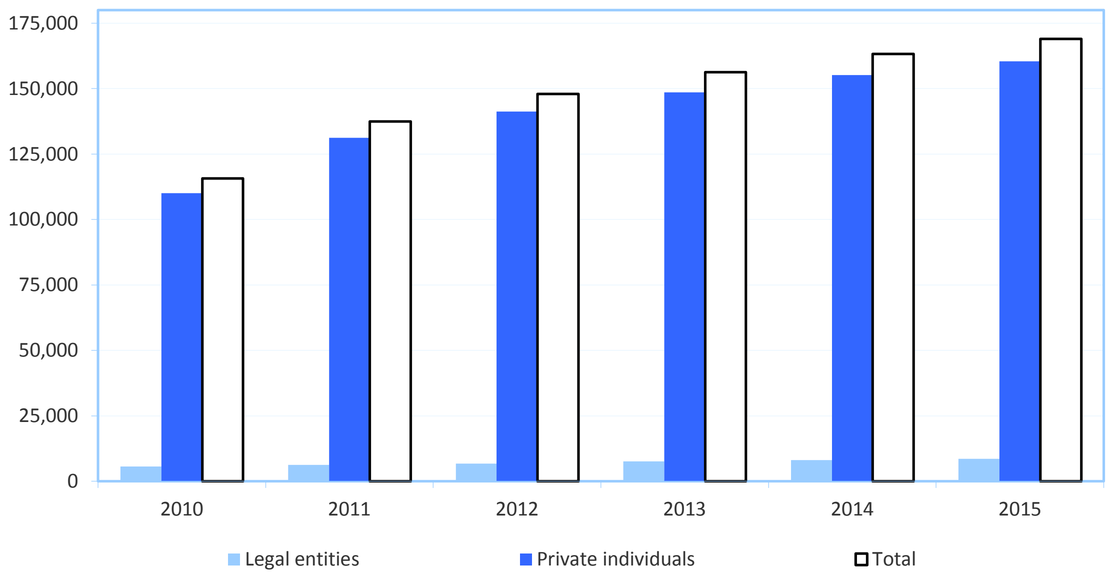
The domestic insurance companies' total financial placements that cover their technical provisions, reached CZK 411.6 billion (decrease by 4.7%)[69]. Financial placements must meet strict regulatory criteria of safety, diversification and profitability. The majority of the financial placement assets are debt securities (69%) and equity securities (21%). A similar investment structure is specified in separate Table A2.9 available in Appendix 2. The available non-life insurance solvency margin exceeds the required solvency margin 3.8 times. In the case of life insurance, this ratio is almost three times as high.[70]

The financial results reported by insurance companies are also directly affected by their success in their campaign against insurance fraud. Per the data of the Czech Insurance Association, in 2015, proven insurance frauds reached the amount of CZK 1.2 billion, which is CZK 100 million more than in 2014. For the first time in history, the insurance companies discovered the biggest number of insurance fraud cases in personal insurance, which includes, besides life insurance, insurance against accidents and illnesses. This often includes organized groups' activities who utilize fake reports produced by "cooperating" physicians. In the past, motor vehicle insurance frauds used to prevail. From the geographical perspective, the most cases occur in Prague, the Central Bohemian Region and the Ústí nad Labem Region, and the smallest number of fraud cases is discovered in the Zlín Region and Vysočina Region. Insurance companies do not rely only on the human factor in their efforts to uncover insurance fraud. A number of insurers have invested in new software systems that are able to identify and evaluate suspicious cases in advance.

7.3. Insurance Intermediation

As in the previous years, the number of insurance intermediaries continued to increase. In the end of 2015, over 169 thousand intermediaries and independent loss adjusters were registered. As is obvious from Graph 7.2, the majority are private individuals (95%) as compared to legal entities.

Graph 7.2: Number of insurance intermediaries



Source: CNB

[69] Including life insurance financial placements, providing the insured bears the investment risk.
[70] The most recent data available from the ARAD system as of 31 December 2014.

The biggest category was represented by subordinated insurance intermediaries and exclusive insurance agents who jointly represented 88% of the total number of insurance intermediaries. The market competition was also reinforced by almost 5.8 thousand intermediaries from the EU countries (see Table 7.2). Also, intermediary licenses were taken away from almost 19 thousand subjects; however, mostly upon their own request.

Especially sales of reserve-generating life insurance policies (investment, equity) are significantly affected by the intermediary's commission amount, regardless of any long-term evaluation of his work quality. The life insurance sales system still features the aforementioned re-insuring when policies are terminated without any reason and new ones are only concluded to obtain intermediary commissions. In connection with this, one may conclude that those insurance companies, which are negatively affected by the current market condition, although partially contributed to its condition, intensify their own measures leading towards their greater responsibility for the quality of work of their external sales networks.

Due to the prevailing problems in the insurance distribution area that are also proven by the big number of registrations and associated limited possibilities of effective monitoring of insurance intermediaries, the MoF prepares a brand new Act on Insurance Distribution. This act will simultaneously transpose a new European legislation (Insurance Distribution Directive – IDD).

Table 7.2: Number of insurance intermediaries by category

Entity registered as at 31 Dec	2014			2015			Year-on-year change (%)		
	PI	LE	Total	PI	LE	Total	PI	LE	Total
Tied insurance intermediary	12,448	305	12,753	12,613	304	12,917	1.3	-0.3	1.3
Subordinated insurance intermediary	100,601	2,963	103,564	104,601	3,254	107,855	4.0	9.8	4.1
Exclusive insurance agent	38,378	333	38,711	39,659	358	40,017	3.3	7.5	3.4
Insurance agent	501	944	1,445	462	931	1,393	-7.8	-1.4	-3.6
Insurance broker	151	639	790	146	634	780	-3.3	-0.8	-1.3
Independent loss adjuster	127	119	246	142	118	260	11.8	-0.8	5.7
Foreign insurance intermediary[71]	2,922	2,773	5,695	2,760	3,042	5,802	-5.5	9.7	1.9
Total	155,128	8,076	163,204	160,383	8,641	169,024	3.4	7.0	3.6

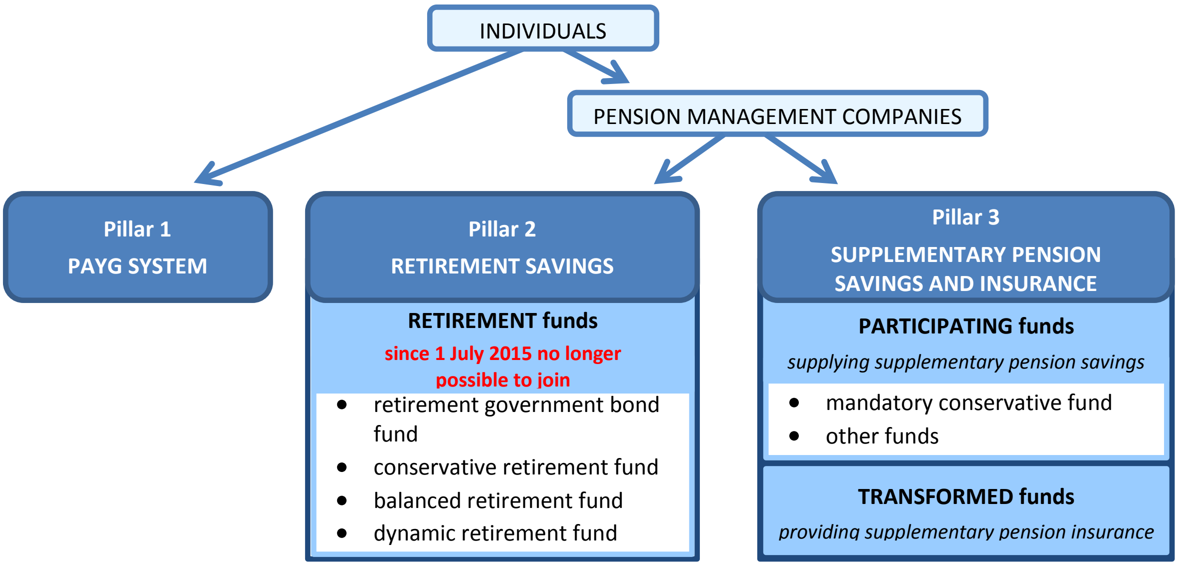
Source: CNB

[71] Insurance intermediaries whose home state is not the Czech Republic, also referred to as the “notified body”.

8. PENSION SYSTEM

Since 2013, the pension system in the Czech Republic was formed by the three pillars, as indicated by the following Diagram 8.1.

Diagram 8.1: Structure of the pension system since 2013



Source: Prepared internally

Pillar 1 represents the standard pension system, i.e. the mandatory pay-as-you-go system financed by the state. In 2013, the pension system was expanded to include voluntary retirement savings, which makes up so-called Pillar 2. This savings used to consist of transferring 3% of the employee's gross salary that was deducted for national pension insurance to a private individual retirement account managed by a pension management company under the condition that the employee contributes an additional payment equalling 2% of his gross salary. As of 1 July 2015, new participants are not allowed to join the retirement funds. As of 1 January 2016, these funds cannot be used for savings purposes, and as of 1 July 2016, the retirement funds will be liquidated and the participants' savings will be settled by the end of 2016. Chapter 8.2 provides more details on the retirement savings termination method.

Pillar 3 also represents the voluntary saving of funds for retirement, which the state supports in the form of a state contribution and tax relief. Up to the end of 2012, the function of Pillar 3 existed only under the supplementary pension insurance scheme, which continues to exist as a part of Pillar 3 in the form of the transformed funds. These are the funds to which the savings of the participants in the original supplementary pension insurance scheme were automatically transferred. At the same time, the conditions of their supplementary pension insurance contracts were retained (namely the no-loss guarantee, the ability to receive an early pension, and the conditions that make it possible to terminate the contract and receive payments). It is no longer possible to join the supplementary pension insurance scheme. Individuals interested in savings through Pillar 3 may only join the supplementary pension savings scheme in which their funds are invested in some of the participating funds according to the investment strategy selected by the participant from his pension management company's offer.

In connection with the planned retirement savings termination, i.e. Pillar 2, the supplementary savings scheme was modified in order to make one's saving through Pillar 3 more attractive. Since the beginning of 2016, the participating funds may be also newly joined by participants less than 18 years of age. The entitlement age for the payment of some benefits from the supplementary pension savings decreased to 60 years (the same applies to the supplementary pension insurance), and pensions paid for at least 10 years are newly tax exempt. In 2017, the maximum amount, which the pension Pillar 3 participants may deduct from their income tax base, will increase from CZK 12,000 to CZK 24,000. The tax relief limit applicable to the employer's contribution to one's supplementary pension insurance or supplementary pension savings will be increased from CZK 30,000 to CZK 50,000. With the goal to support the offering of supplementary pension savings, in 2016, the maximum supplementary pension savings commission was doubled to 7% of one's average salary. In 2016, it represents about CZK 1,813.

8.1. Pension Management Companies

The pension management companies operate as administrators of participants' funds registered in private individual pension accounts in their retirement, participating, and transformed funds. They were created as new subjects, mostly through the transformation of the original pension funds in connection with the pension system reform effective since 2013. The main purpose of their creation was to secure the participants' funds through the separation of their assets from the stockholders' or the administrator's assets.

The law assigned to the pension management companies the obligation to offer the participants 4 types of retirement funds through Pillar 2 – dynamic, balanced, conservative, and government bonds fund. In addition, the legislation defines the investment limits for each of these retirement funds. Within Pillar 3, the pension management companies are legally obliged to offer one conservative participating fund with the investment limits defined by the law. They may, however, offer a range of other participating funds with variously structured portfolios (within the broader limits defined by the law).

As indicated by Table 8.1, in the end of 2015, 8 pension management companies operated within the pension system. While all these companies managed the funds in the participating and transformed funds of Pillar 3, only 5 of them provided activities including the management of the retirement funds under Pillar 2 (see column 2 of Table 8.1).

Table 8.1: Number of funds of pension management companies in Pillars 2 and 3

Pension management company	Pillar 2	Pillar 3	
	Retirement funds	Transformed funds	Participating funds
Allianz penzijní společnost, a.s.	4	1	3
AXA penzijní společnost a.s.	-	1	3
Conseq penzijní společnost, a.s.	-	1	3
Česká spořitelna - penzijní společnost, a.s.	4	1	3
ČSOB Penzijní společnost, a.s., member of the ČSOB group	4	1	4
KB Penzijní společnost, a.s.	4	1	4
NN Penzijní společnost, a.s.	-	1	3
Penzijní společnost České pojišťovny, a.s.	4	1	4
Total	20	8	27

Source: APS CR

In the end of 2015, the pension management companies managed a total of 55 funds, which are 5 fewer funds than in 2014. During 2015, the number of funds changed exclusively in the participating funds sector and mainly during the first half of the year when a few participating funds merged in order to increase their assets to CZK 50 million in two years from their creation. Per the law, the pension management companies were supposed to make sure each of their funds reaches this amount, except for the mandatory participating fund.[72] Some pension management companies decided to resolve the issue of the required level of assets by creating a new fund, thus starting a new two-year time period, and they will subsequently merge this new fund with the fund that does not satisfy the requirements. In the end of 2015, the CZK 50 million asset limit was already met by all the voluntarily founded participating funds; therefore, one may conclude that in 2016, other changes of the number of funds will probably be mainly associated with the gradual termination of the retirement funds.

The pension management company sector reported its 2015 pre-taxation profit from ordinary activities of CZK 780.1 million, which represents a 47.5% increase. The ratio between the pension management companies' capital and their total capital requirement decreased again. This time by 6.1 p.p. as compared to 2014. This development cannot be viewed favourably, particularly due to the possible future risk of increased earnings on securities, which make up the majority of the portfolio of transformed funds managed by the pension management companies. Due to the statutory guarantee that the transformed funds must not decrease in value, the pension management companies would have to cover a potential loss through their own capital if the interest rates increased from their very low levels and if, resultantly, their held market-valued bond prices dropped. However, since 2016, this risk decreased due to the slight increase of fees paid for the management

[72] The majority of the participating funds started their activities as of 1 January 2013.

and appreciation of assets in the transformed and participating funds (except for the mandatory conservative fund).[73]

Table 8.2: Selected indicators in pension management companies sector

Indicator as at 31 Dec (in CZK mn or %)	2013	2014	2015	Year-on-year change (%)
Profit (loss) for the accounting period before taxation	-271.4	528.9	780.1	47.5
Equity, total	9,129.5	8,322.9	8,796.0	5.7
Capital ratio (%)	148.5	139.7	133.7	-4.3

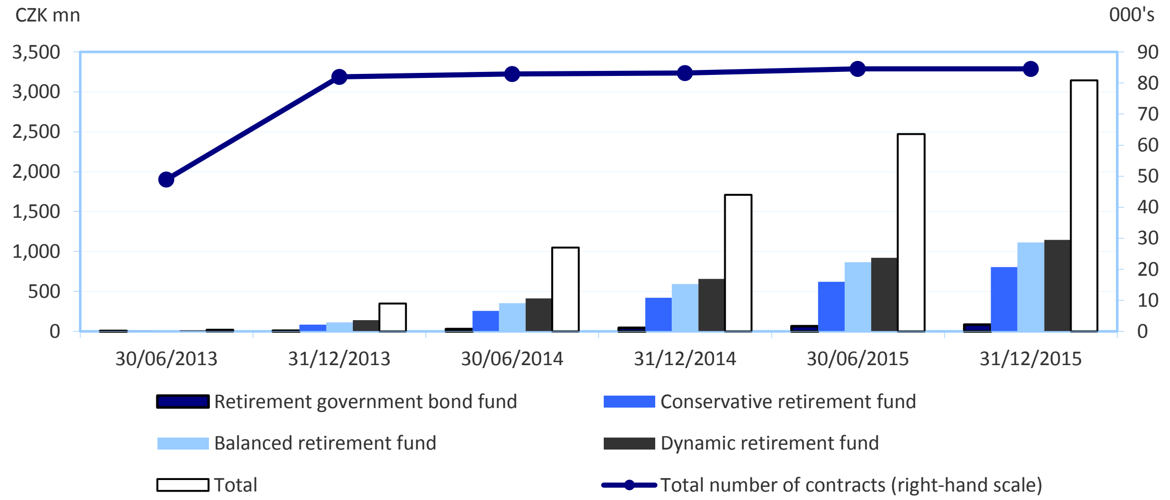
Source: CNB – ARAD

8.2. Retirement Savings

Since the very start of Pillar 2, the development in retirement savings has been affected by some representatives of then opposition parties, after the October 2013 premature elections, representatives of the current government coalition, who openly declared their intention to cancel the retirement savings system. The government decided on the termination of pension Pillar 2 in November 2014. The entrance of new participants into the pension funds was stopped per the amendment of the Act on Retirement Savings on 1July 2015. The Act on Termination of Retirement Savings came into effect on 28 December 2015, and the possibility of saving through the retirement funds was eliminated on 1 January 2016.[74] By the end of September 2016, the current participants should inform their pension management companies on how their savings should be paid out – in cash through money order, to one's bank account, or as a transfer to one's Pillar 3 account. Savings should be then paid out to the participants by the end of 2016.

In the end of 2015, the retirement fund participants' assets reached the amount of CZK 3.14 billion. However, as compared to the end of 2014, the number of participants in the retirement funds increased only by 1,323 individuals to the total of 84.5 thousand individuals as a result of the declared Pillar 2 termination and non-possibility to join of mid-2015. Based on the participants' investments in the individual types of retirement funds, (see Graph 8.1) it becomes obvious that the participants rather selected riskier investment strategies, since in the end of the year, 71.8% of all the funds were invested in dynamic and balanced retirement funds, which, compared to the other retirement funds, have statutory less strict investment limits, and they may invest in stocks as well, for example.

Graph 8.1: Volume of assets managed in different types of retirement funds



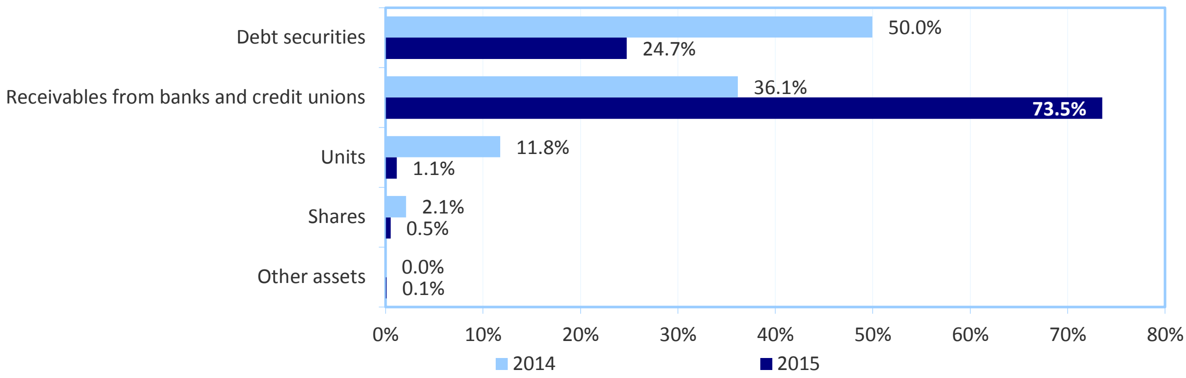
Source: APS CR

[73] In the case of the transformed funds, their maximum fee amount paid for asset management increased by 0.2 p.p. to 0.8% of one's total saved amount. Conversely, the pension management companies' rewards for assets appreciation decreased by 5 p.p. to 10% of annual yields. In the case of the other participating funds, their maximum assets management reward increased by 0.2 p.p. to 1% of one's total saved amount, and the maximum assets appreciation reward increased by 5 p.p. to 15% of annual yields.

[74] The very last transfers of one's 3% from national pension insurance and 2% of gross salary to the individual pension account took place in January 2016 (for December 2015).

The decision on terminating the retirement funds and the associated payment of the participants' assets that should occur during the 4th quarter of 2016 significantly affected the retirement funds' assets structure. Already in the end of 2015, the pension management companies transferred a significant part of their retirement fund assets into more liquid and less risky financial instruments, especially to accounts of credit institutions. In the end of 2015, the deposits kept in banks and credit unions featured 73.5% of all the retirement fund assets.

Graph 8.2: Allocation of retirement funds' assets



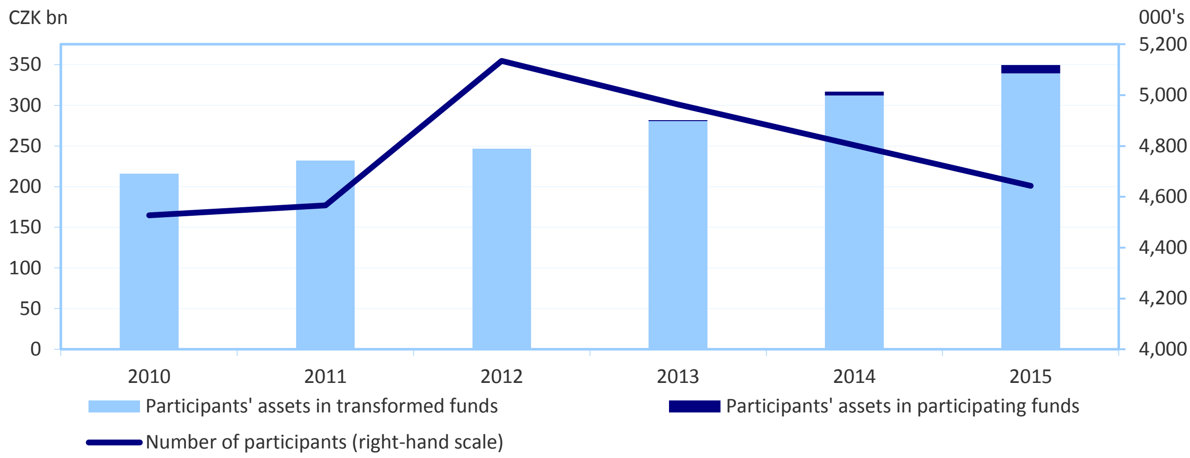
Source: CNB – ARAD, MoF calculations

8.3. Supplementary Pension Insurance and Supplementary Pension Savings

In 2015, the assets of the transformed and participating funds reached their total amount of CZK 349.5 billion. This represents a year-on-year increase by 10.3%. Out of that, in the end of the year, the pension management companies managed through their participating funds' assets equalling CZK 10.1 billion, i.e. 2.9% of all the Pillar 3 assets. Therefore, the majority of assets stay in the transformed funds.

After a large number of new participants joined Pillar 3 (a total increase by 569 thousand participants) due to the possibility to enter into contract according to the old supplementary pension insurance conditions only by the end of November 2012, the number of Pillar 3 participants gradually decreases. In 2015, the total number of Pillar 3 participants decreased like in 2014, by 160 thousand individuals. In the end of 2015, the transformed funds registered 4.28 million participants, and the participating funds handled the assets of about 361 thousand individuals.[75] During 2015, the number of supplementary pension savings contracts increased by almost 143.5 thousand; however, this increase of the number of individuals in participating funds was not enough to cover the decrease of the number of transformed fund clients.

Graph 8.3: Participants' assets and number of participants in Pillar 3

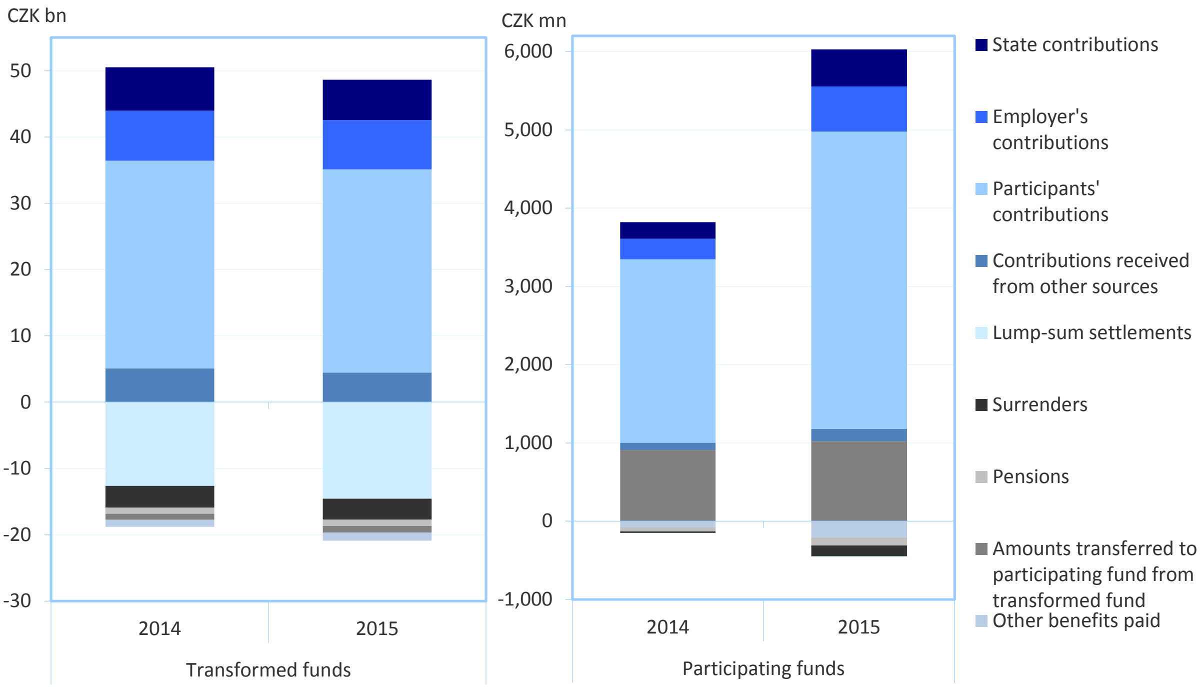


Source: APS CR, MoF

[75] The number of participants in the participating funds is based on the data that the MoF receives on a quarterly basis from the individual pension management companies. According to the data of the APS CR, as of 31 December 2015 there were almost 368,000 participants in the participating funds; according to the CNB's data, there were 367,000.

While the transformed funds registered another decrease of balance between their received and disbursed funds due to their closure for new participants, the incomes of the participating funds, compared to 2014, increased by more than CZK 2 billion and significantly exceeded the volume of disbursed funds. Due to the growing number of supplementary pension savings participants, the amount of participants' contributions increased, and the total income, compared to 2014, increased even due to the slightly greater volume of savings transferred from the transformed funds. The disbursements from the transformed funds still mostly feature the form of lump-sum settlements. Conversely, the participating funds mostly disburse pensions, making fewer lump-sum settlements. However, pension payments upon supplementary pension savings termination are preferred due to the still short-term functioning of the participating funds. It mainly relates to the utilization of so-called pre-pensions[76] by those participants who transferred their funds from the transformed to participating funds. Participants who transferred their assets from the transformed funds may prefer regular pension disbursement also due to the tax optimization when their employer's contributions are to be paid out.[77]

Graph 8.4: Contributions received and paid in transformed and participating funds



Source: CNB – ARAD

In terms of the Pillar 3 participants' age structure, so-called middle generation (30-59 years), i.e. productive age individuals with statistically higher and more stable income, which creates conditions for creating one's reserve for his retirement, is traditionally the strongest (with its ratio of almost 63 %). In the end of 2015, the absolutely highest number of participants was represented by individuals in their forties, closely followed by individuals in their thirties. Table 8.3 indicates that in 2015, the 20-39 age category registered the biggest decrease of participants. The changes in the number of participants within the individual age groups may, however, be caused by people moving from one age group to another as they age. For example, the continual increase in the number of participants in the 40-49 age group is apparently the result of the gradual shift of participants from the heavy birth years of the 1970s as they move into this age category. The age group whose number of participants increased again during 2015 was also represented by individuals over 70 years of age.

[76] Five years prior reaching pension eligibility age, the participants have the ability to either start collecting their pension in the form of a retirement pension for a predefined period of time, or to pay a one-time premium in order to start collecting a lifetime annuity or fixed amount annuity payments for a specific period of time. The ability to select a lump-sum distribution is conditional on reaching pension eligibility age.

[77] The contracts for supplementary pension insurance that were made starting in 2000 offer two ways in which the savings can be paid out at the end of the savings period – a lump-sum settlement or lifetime pension payments. In the case of a lump-sum settlement, however, the employer's contributions are taxed at a rate of 15%. If the participant wants to collect their savings within a relatively short period of time, without having to pay the tax on the employer's contribution, they can transfer their savings to a participating fund prior to the end of their contract. Then, within the supplementary pension savings system, the participant can choose to receive pension payments for a specific period of time (no less than three years), during which the employer's contribution is not taxed.

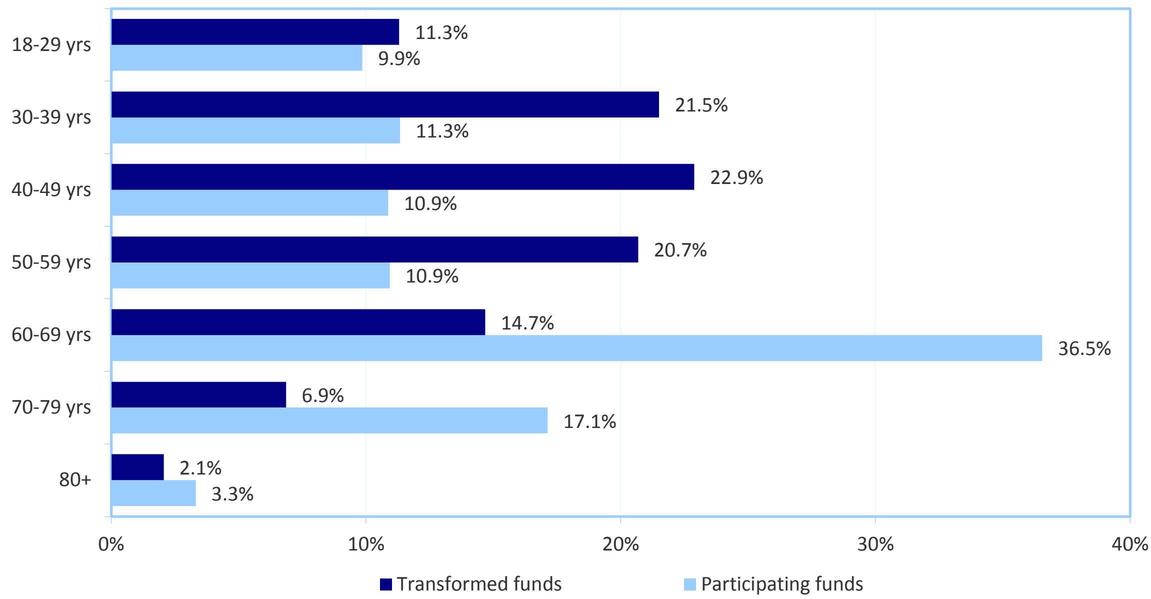
Table 8.3: Participants in Pillar 3 by age

As at 31 Dec	2011	2012	2013	2014	2015	Year-on-year change	
						Abs.	(%)
18-19 yrs	19,569	67,014	28,143	2,154	2,158	4	0.2
20-29 yrs	526,835	718,693	667,795	604,287	517,534	-86,753	-14.4
30-39 yrs	977,023	1,127,029	1,082,619	1,022,808	961,891	-60,917	-6.0
40-49 yrs	885,169	996,302	1,002,963	1,009,655	1,019,504	9,849	1.0
50-59 yrs	973,152	989,126	965,540	947,657	925,162	-22,495	-2.4
60-69 yrs	786,776	814,754	786,819	771,081	760,747	-10,334	-1.3
70-79 yrs	311,402	328,867	334,139	346,909	355,814	8,905	2.6
80+	85,795	93,077	95,326	98,583	100,206	1,623	1.6
Total	4,565,741	5,134,862	4,963,344	4,803,134	4,643,016	-160,118	-3.3

Source: MoF

In the case of the participating funds, prior to the pension reform, it was expected that a higher level of interest would be expressed by people in the lower and middle age groups due to the ability to select a more dynamic investment strategy. In 2015, 14 thousand of new participants less than 30 years of age concluded their supplementary pension savings contracts. It was roughly a thousand participants more than in the previous year. Nevertheless, the new supplementary pension savings participants are still strongly dominated by participants aged 60 and above who represented about 60% of all the participants who concluded their supplementary pension savings contracts during 2015. Compared to 2015, the ratio of all the supplementary pension savings participants over 60 years of age increased by 2 p.p. to 57%. This probably indicates a growing interest of these participants in using their supplementary pension savings as means for investing their available funds, which, as they have reached retirement age, they will be able to start withdrawing, together with the state contributions, after a five-year saving phase.

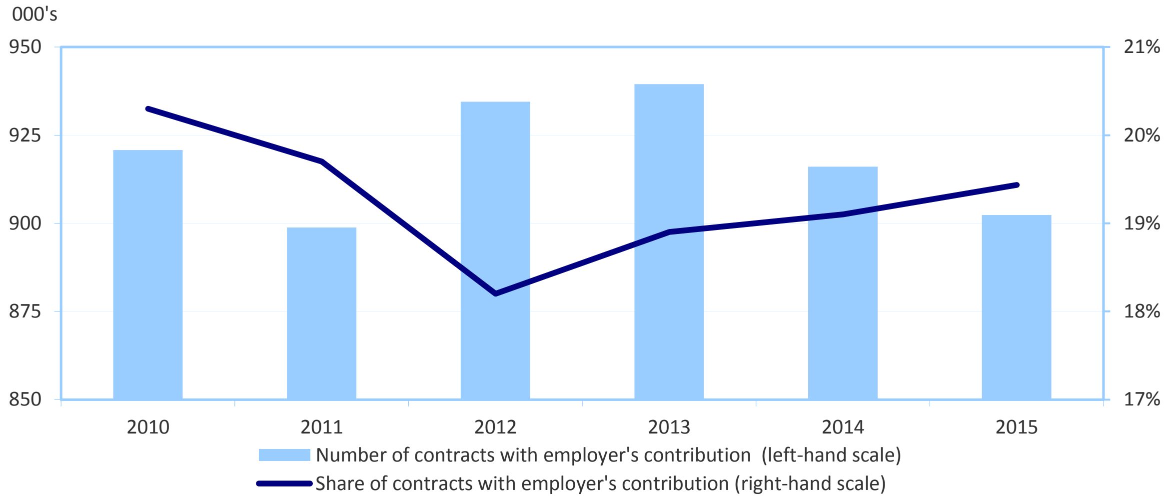
Graph 8.5: Age structure of participants in transformed and participating funds



Source: MoF

As indicated in Graph 8.6, in 2015, the number of Pillar 3 participants received their employers' contributions decreased by 1.5% to 902 thousand. However, in relative terms, due to the greater decrease of the total number of participants, the ratio of participants receiving their employers' contributions slightly increased by approximately 0.3 p.p. to 19.4%. Despite that, the ratio of participants received their employers' contributions in the total number of Pillar 3 participants for the time being does not reach the pre-crisis values, which used to exceed the 20% limit. Since the employer's contribution is often used as its HR policy motivational and stabilization factor, it is mostly associated (in 76% of cases) with participants in the 35-59 age group.

Graph 8.6: Number of contracts in Pillar 3 with an employer's contribution[78]



Source: MoF

One of the objectives of the reform of Pillar 3 that entered into effect in 2013 was to motivate participants to regularly save higher amounts through the new conditions for receiving the state contribution and obtaining tax relief.[79] In the case of supplementary pension insurance, the average monthly participant contribution did indeed significantly increase (by 22.2%) in 2013 to reach CZK 568. However, in 2014, the year-on-year growth was only CZK 6 and CZK 15 in 2015. The average contribution amount in the participating funds still does reach values greater than in the transformed funds; however, it did not change year-on-year. It stayed at its CZK 722 level. However, due to the increased average state contribution in the participating funds, this stagnation was caused by the limited utilization of tax reliefs. As indicated by the average contribution amounts per the individual quarters of 2015 specified in Table 8.4, both types of funds, like in the previous year, featured higher increase rates in the 4th quarter. That was caused by the fact that the majority of participants made their unscheduled contributions in the end of the year in order to utilize their tax reliefs. However, when compared to 2014, fewer participants took advantage of this opportunity. The average monthly contribution increase applied to employer's contributions as well. In the case of the transformed funds, it was by CZK 25 to CZK 707, and in the case of the participating funds, by CZK 13 to CZK 815. This development may be contributed to the gradually improving economic conditions of businesses, and it is probable that due to the increased tax relief limit associated with employer's contributions from 2017, the contribution growth rate will further increase in the future.

Table 8.4: Development of average monthly contribution amount in transformed funds (TF) and participating funds (PF)

	Average CZK/month	2011	2012	2013	2014	2015[80]	2015				Year-on-year change	
							1Q	2Q	3Q	4Q	Abs.	(%)
TF	Participant's contribution	442	465	568	574	589	573	578	585	619	15	2.6
	State contribution	105	108	117	119	122	121	122	123	123	3	2.5
	Employer's contribution	n/a	n/a	n/a	682	707	699	691	696	741	25	3.7
PF	Participant's contribution	-	-	749	722	722	694	708	711	773	0	0.0
	State contribution	-	-	143	148	152	149	152	153	154	4	2.7
	Employer's contribution	-	-	n/a	802	815	811	792	801	857	13	1.6

Source: APS CR, MoF, MoF calculations

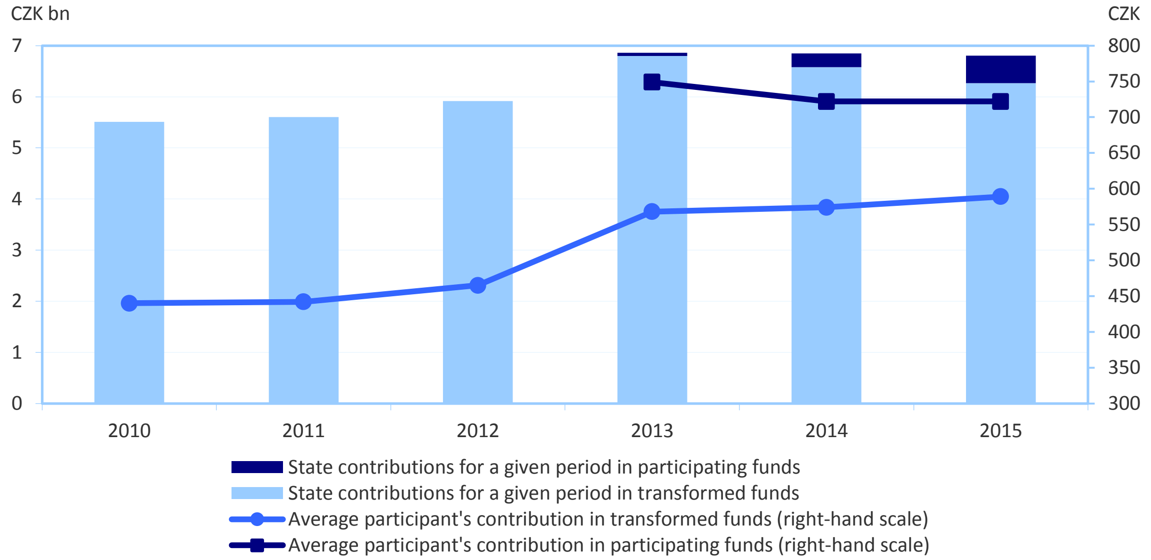
[78] Status as at 31 December for each given year.

[79] Starting 1 January 2013, the minimum monthly participant's contribution which receives a state contribution was increased from CZK 100 to CZK 300, and the monthly state contribution from CZK 50 to CZK 90. The minimum monthly participant's contribution for receiving the maximum state contribution was increased from CZK 500 to CZK 1,000, and the maximum monthly state contribution from CZK 150 to CZK 230. At the same time that the minimum contribution amount for receiving the maximum state contribution was increased, the rules for tax relief were also changed and this relief could only be claimed for monthly contributions of over CZK 1,000 as opposed to the previous CZK 500.

[80] This is the average for the full calendar year 2015 and it is thus lower than the average specified for the fourth quarter of 2015 in Table 8.4.

Despite the fact that in 2015, a higher average state contribution per participant was disbursed, the total direct state support in the sector of supplementary pension insurance and supplementary pension savings decreased due to the decreasing number of participants by CZK 45 million to the final CZK 6.8 billion. Of this amount, CZK 539 billion was used for the state contributions for the participating funds.

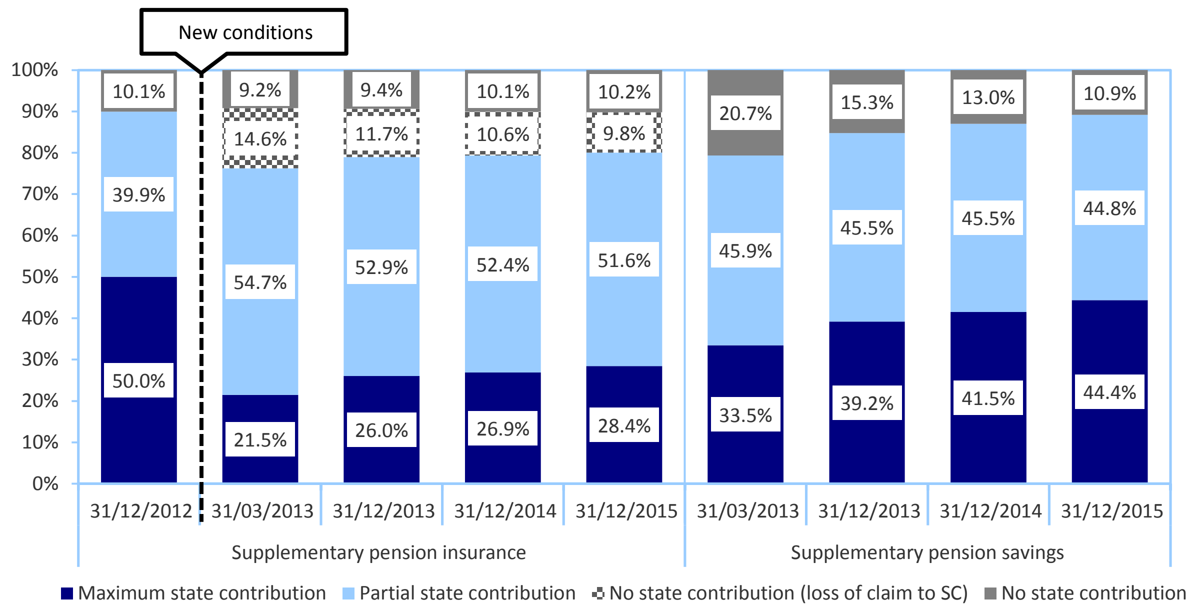
Graph 8.7: State contributions and average participant's contribution in transformed and participating funds



Source: MoF

Regarding the stratification of state contribution amounts in the contract stem, it makes sense to highlight the fact that all the supplementary pension savings participants joined their participating funds already under the new conditions of determining their state contribution amounts. That to that, it is possible to find the distribution of the supplementary pension savings participants such a structure, which might be partially approximated by the transformed fund participants' structure in the future as well.

Graph 8.8: Shares of supplementary pension insurance contracts with no, partial, and maximum state contribution (SC)[81]



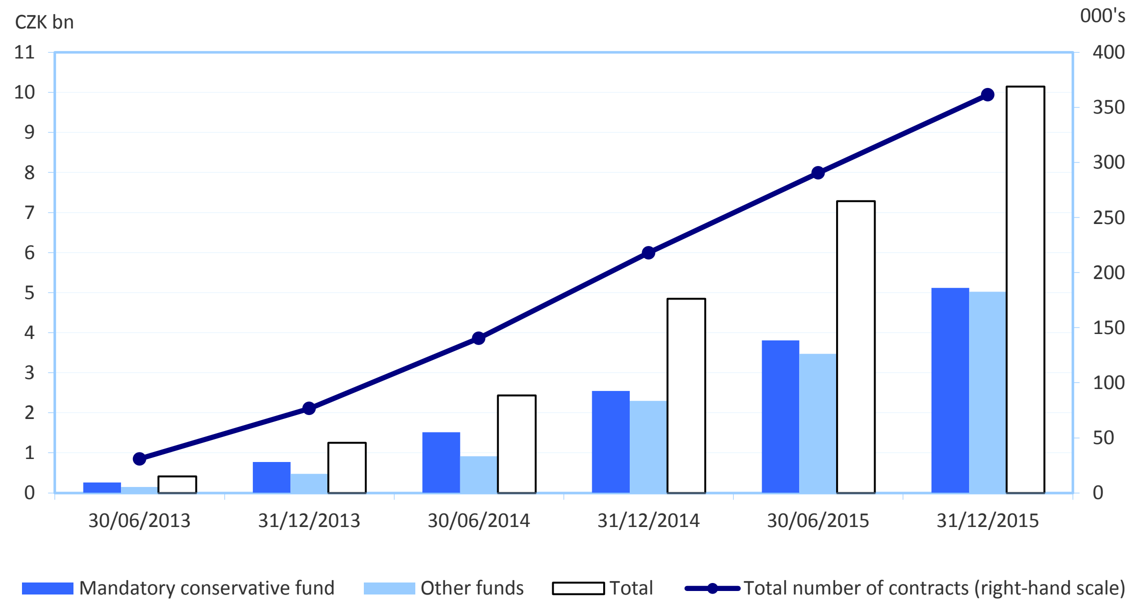
Source: MoF

[81] The data is based on the average number of contracts for the individual quarters for which the average participant's contribution amount equals the specified value during the period in question. This is the average for the relevant three months, which may not correspond to the contributions made in the individual months and thus there may be some distortion in the data. The average number of participants does not include those contracts that are still registered as active, but for which no information was provided with regard to the application for a state contribution.

While comparing the ratios of supplementary pension insurance contracts and supplementary pension savings contracts with no, partial, or maximum state contribution, as indicated in Graph 8.8, one could suppose that the transformed funds may still allow the average participant's contribution to grow in the future. Nevertheless, the most critical changes in the participants' behaviour in terms of setting their contributions took place in the end of 2012 and the 1st quarter of 2013 when the reform took place. In the future, one may only expect minor contribution amount changes, based on the participants' financial situation development.

In 2015, the pension management companies usually offered, in terms of savings through participating funds, 2 to 4 various investment strategies from conservative ones, which only include investments in the least risky assets (government bonds, treasury bills, money market instruments, etc.), up to dynamic (stock) ones with significantly higher risk levels; however, greater yield possibilities as well. As indicated in Graph 8.9, compared to the retirement savings participants, the supplementary pension savings participants preferred conservative investment methods since in terms of the volume of managed assets in different types of participating funds, the mandatory conservative fund (50.5% of the total volume of assets) dominates. It features its investment limits specified by law, and it must be offered by every pension management company, which provides pension savings. The superiority of mandatory conservative funds in the volume of assets over the other types of funds has been decreasing since the creation of the participating funds; however, it is necessary to consider the fact that the prevailing risk aversion probably relates to the participants' age structure (as described above, a half of the participants saving through their participating funds are over 60 years of age) and their potential utilization of the supplementary pension savings system as their mid-term investment with a guaranteed state contribution. The newly allowed access of individuals under 18 years of age to the supplementary pension savings system may contribute to the further decrease of the ratio of the mandatory conservative fund in the volume of assets. Once these participants become 18 years old and they were saving for at least 10 years, they may receive their partial surrender in the amount of up to one third of their funds reduced by provided state contributions and employer's contributions. It is possible to expect that these participants might, due to their long-term investment horizon, prefer participating funds with more dynamic investment strategies to the mandatory conservative fund.

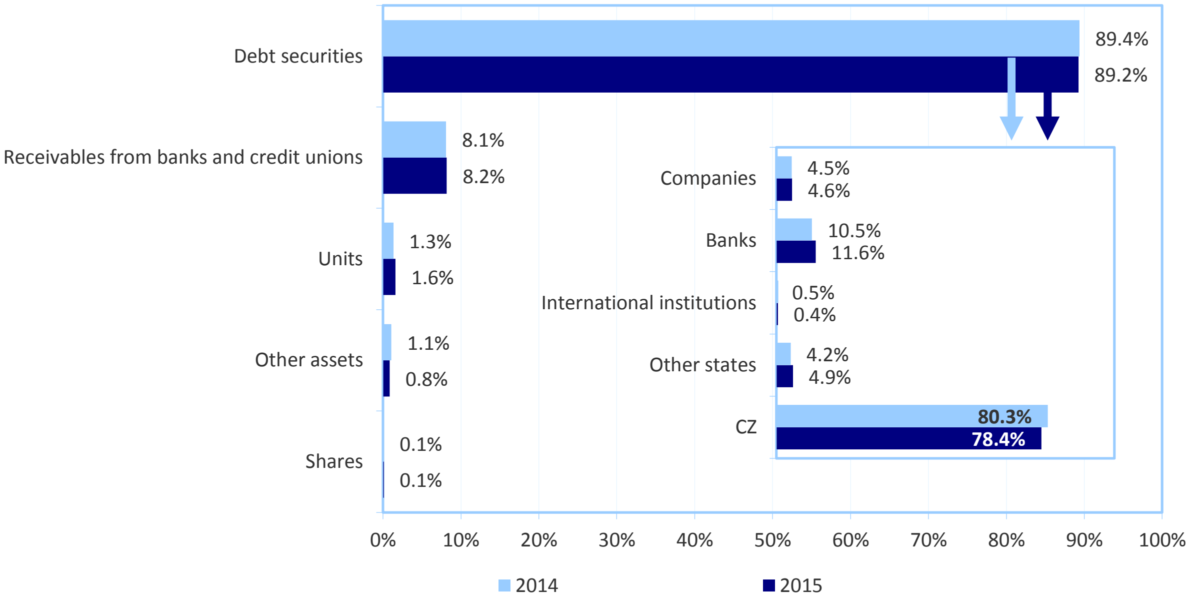
Graph 8.9: Volume of assets managed in different types of participating funds



Source: APS CR

The transformed funds' investment portfolio (see Graph 8.10) maintains its conservative character on a long-term basis. It derives from the regulatory framework. Compared to 2014, the ratio of bonds in the total assets did not significantly change. However, the portfolio is still dominated by government bonds issued by the Czech Republic. Compared to 2014, their ratio is slightly lower, but it is probably caused by the decreased yields of the newly issued Czech government bonds. Approximately 8% of the total assets are allocated in deposits kept at credit institutions. The other assets, including shares, make up only a very small proportion of the portfolio.

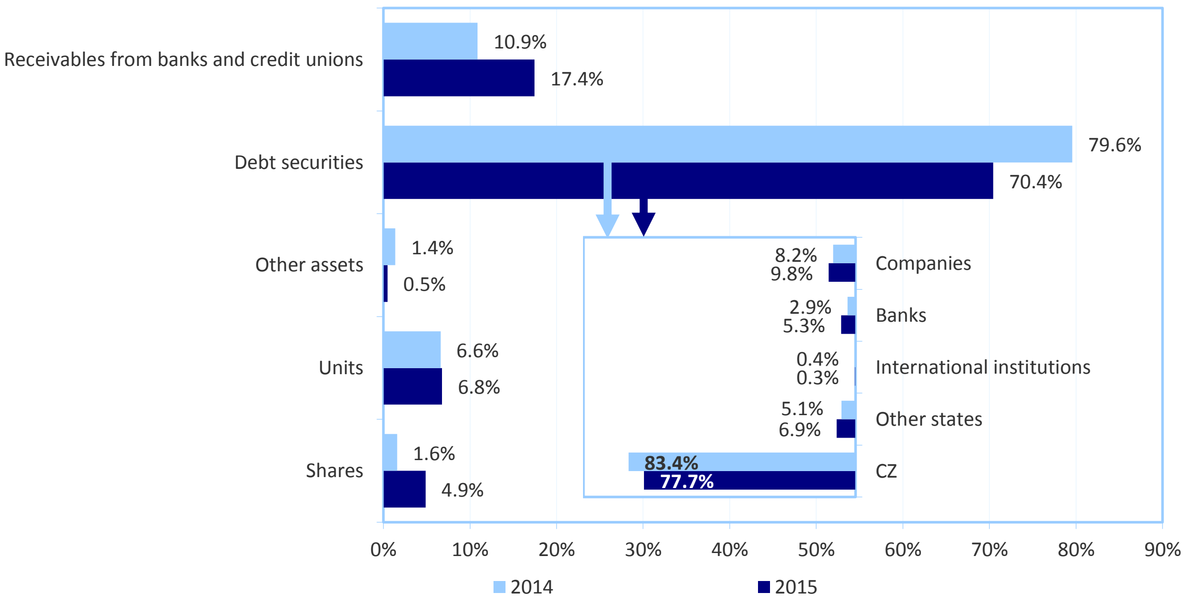
Graph 8.10: Allocation of transformed funds' assets and structure of debt securities according to their issuers



Source: CNB – ARAD, MoF calculations

The participating funds' investment portfolio experienced a significant change in terms of its 2013 structure. In that year, it featured more conservative investments than the transformed funds. Due to the significant position of the mandatory conservative funds, the participating funds' assets volume is dominated by debt securities mainly represented by government bonds issued by the Czech Republic and receivables from credit institutions whose ratio increased to the detriment of bonds in 2015. However, compared to the transformed funds, the participating funds invested more in commercial company bonds whose ratio slightly increased, compared to 2014. The 3.3 p.p. growth was also experienced by the shares within the portfolio, which reflects a slight weakening of the present dominant position of the mandatory conservative fund against the other participating funds from the aspect of participants' preference regarding allocation of their assets.

Graph 8.11: Allocation of participating funds' assets and structure of debt securities according to their issuers



Source: CNB – ARAD, MoF calculations

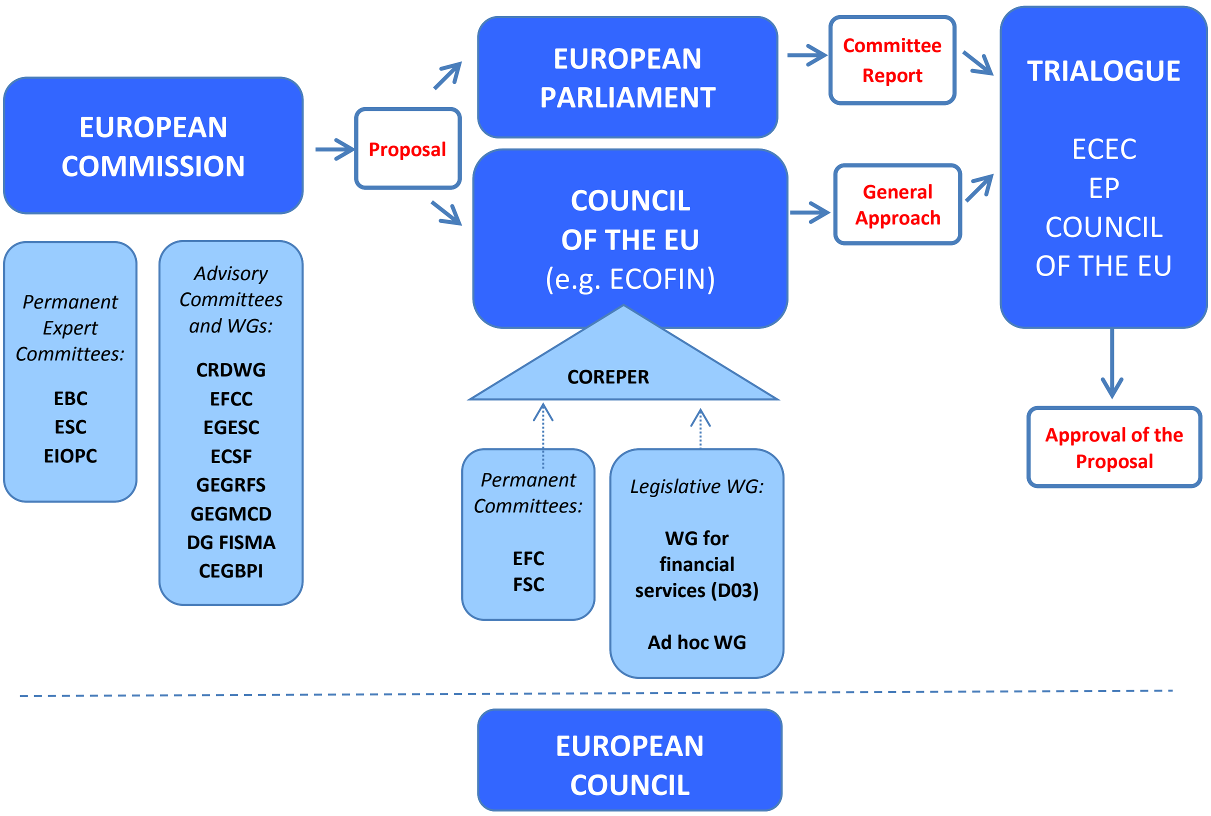
Some of the more detailed information about the supplementary pension insurance and supplementary pension savings sector, which is regularly published on the MoF website (www.mfcr.cz), is included in Tables A2.7 and A2.8 in Appendix 2.

9. FINANCIAL MARKET ACTIVITIES OF THE MOF AND FINANCIAL MARKET LEGISLATION

9.1. Ministry of Finance's Activities on the European Level

The MoF's activities on the European level are associated with the legislative process for discussing and approving the directives and regulations governing the financial market. Diagram 9.1 provides a basic description of this process. The preparation of proposed legislative acts falls within the competence of the European Commission, which holds a "initiative monopoly" within this particular area. In a number of cases, the Commission discusses its plans, and the text of its proposals, at an expert level with representatives from the member states using the platforms provided by the permanent expert committees (referred to as Level 2 Committees), expert advisory committees, and working groups. The Commission's proposals are subsequently finalised, published on the Commission's website, and forwarded for parallel discussion by the European Parliament and the Council of the European Union. At the level of the European Parliament, the proposals are discussed by the appropriate committee (proposals affecting the financial market are discussed by the ECON Committee). The output from the discussions is compiled into an approved Committee Report and includes revisions to the original proposal submitted by the Commission. As far as the Council is concerned, the proposals are discussed by the representatives of the member states within the applicable working group, which, in the case of financial services, is the D03 working party, and various ad hoc working groups that are established as required. The result from the meetings consists of a revised version that is submitted for approval in the form of a General Approach document, first to the Permanent Representatives Committee (COREPER), and then to the Council in its ECOFIN configuration. The General Approach document and the Report prepared by the appropriate committee of the European Parliament are the input materials for a "trialogue" – a tripartite meeting during which a compromise version of the directive or regulation is negotiated by three parties, specifically the Commission, the Council, and the European Parliament. The final version is then formally approved by the Council and the European Parliament and subsequently published in the Official Journal of the European Union (the Journal).

Diagram 9.1: Basic structure of the European institutions within the context of the legislative process



Source: Prepared internally

The following sections of Chapter 9.1 provide information about the topics discussed by the various structures of the Commission and the Council. More details about the individual proposals for directives and regulations are provided in Chapter 9.3.

European Commission

The European Commission is one of the EU's supranational organs, which acts independently of the member states and protects the Union's interests. The term "Commission" is used in two different ways: either in the sense of the College of Commissioners or to also include the full administrative body. The Commission participates at almost all levels of the decision-making process and, of all of the EU's organs, has the largest administrative and expert body at its disposal. Most importantly, the Commission is the "guardian of the treaties", which means that it ensures compliance with the basic treaties establishing the European Union and one of the Commission's official obligations is to lodge complaints if any breach of these treaties is discovered. Another key competence of the Commission consists of its participation in creating the Union's legislation. In this respect, it holds an "initiative monopoly" – only the Commission has the right to submit legislative proposals. Other powers entrusted to the Commission include the publishing of recommendations and opinions, the exercise of delegated power (delegated legislative power), and representing the EU externally, including maintaining diplomatic relations and negotiating international treaties. The Commission is also responsible for managing a majority part of the EU budget.

Various working groups and committees function within the Commission as its advisory bodies. Their meetings are held with the participation of representatives from the member states. As far as financial services are concerned, these are usually representatives from the ministries and, in some situations, also from the central banks. In some cases representatives from the ECB, Level 3 bodies (EIOPA, EBA, and ESMA), EFTA and EEA member states, and the candidate states to the European Union participate as observers.

Permanent Expert Committees

European Banking Committee (EBC)
The EBC fulfils the role of the Commission's advisory body during the preparation of EU implementing acts in the banking sector. Two EBC meetings took place in 2015 for the purpose of proposing and accepting implementing acts related to extensions of the transitional periods related to application of capital requirements for exposures against the central counterparties. With regard to the fact that the authorization process of the existing central counterparties to the qualified central counterparties has not been completed yet, the transitional periods were extended. The purpose rested in penalization of financial institutions in the form of higher capital requirements for exposures against the central counterparties that have not been authorized yet. There was also an effort to avoid a possible disturbance of the financial markets' functioning resulting from institutions possibly leaving the clearing systems of the central counterparties that have not been authorized yet.

European Securities Committee (ESC)
The ESC is a body formed by the member states' representatives that is authorized to vote on the Commission's implementing acts within the regulatory procedure with scrutiny; it does not apply to technical standards, which are only formally approved by the Commission). In 2015, it voted on validation of the India's accounting standards and equivalence of supervision of the central counterparties in Mexico, Canada, South Africa, South Korea, and Switzerland. In June 2015, the implementing Market Abuse Regulation (MAR) related to whistleblowing was sent for commenting, and it was voted on it during the October meeting. All the regulations were unanimously approved.

European Insurance and Occupational Pensions Committee (EIOPC)
The EIOPC functions as the Commission's comitology board when negotiating and approving the 2nd level implementing acts. The Committee delegated negotiation of acts to the CEGBPI expert group. The EIOPC Committee has not met since 2012.

Other selected European Commission platforms

Capital Requirement Directive Working Group (CRDWG)
The CRDWG works on regulation in banking sector, or regulation of credit institutions and some securities dealers. The group's work objective rests especially in accepting recommendations of the Basel Committee on Banking Supervision into the European legislation where recommendations are subject to adjustments after factoring in the European banking market's specifics. This working group did not meet in 2015.

European Financial Conglomerates Committee (EFCC)

The EFCC solves expert issues related to financial conglomerates. This Committee's meeting is attended by representatives of the 3rd level bodies – EIOPA, EBA, and ESMA, as observers. The Committee did not meet in 2015.

Expert Group of the European Securities Committee (EGESC)

The EGESC meetings often take place on the same day as the ESC meetings if it is necessary for ESC to physically meet (see above). In 2015, the EGESC group met: on 13 January 2015, as a transposition workshop for MiFID II (it also discussed Article 8(d) of the regulation on rating agencies, on 15 January 2015, as a transposition workshop for MAR, on 11 February 2015, as a transposition workshop for MiFID II and to solve delegated acts related to MAR, MiFID II, and MiFIR, and to the MAR implementing acts (it also discussed EMIR in connection with the USA), on 23 April 2015, in relation to CMU, review of the Prospectus Directive, delegated acts related to MiFID II, MiFIR, MAR, and UCITS V, in relation to the MAR implementing acts and the implementing acts and regulations on EuVECA and EuSEF, on 19 May 2015, for review of the Prospectus Directive and delegated acts related to MAR, MiFID II, and MiFIR, on 2 July 2015, for review of the Prospectus Directive, on 9 September 2015, for review of the Prospectus Directive and as a transposition workshop for MiFID II, on 21 September 2015, regarding the review of the Prospectus Directive, PRIIPS implementing acts, ESMA technical advice for the CSDR, and as a transposition workshop for MiFID II, and on 28 October 2015, regarding the delegated acts for the CSDR and the CMU. On 19 February 2016, the EGECS group met again as a transposition workshop for MiFID II and MiFIR.

European Crowdfunding Stakeholders Forum (ECSF)

The ECSF is a new group that was established in 2014 and that met for the first time in the fall of 2014. This group is fully focused on crowdfunding, i.e. national regulations, best practices, and the crowdfunding regulation need on the European level. This topic is sometimes also discussed at EGESC (on 18 December 2014, and 10 February 2016). During 2015, the group met only on 4 March 2015. On 1 April 2015, ECSF commenced the Internet research on crowdfunding with the result published on 4 November 2015. In 2016, there was a meeting taking place on 17 February 2016, whose objective rested in preparation of supporting data for the Commission's report on the European market's crowdfunding development in the form of accumulation of the member states' existing experience with their national legislation, the crowdfunding's cross-border utilization, and the regulation environment, and in evaluation of the society's overall awareness on the opportunities, advantages, and threats of crowdfunding as the alternative funding resource.

Government Expert Group on Retail Financial Services (GEGRFS)

The GEGRFS handles retail financial services, and it work is derived especially from the Green Paper on Retail Financial Services in the Single Market issued in May 2007. During the group's meeting, the Commission's particular legislation or non-legislation proposals are discussed, as well as topic within the expert discussion phase. This group did not formally meet in 2015.

Government Expert Group on Mortgage Credit Directive (GEGMCD)

The GEGMC address issues associated with the legal provisions for the mortgage market. In 2015, the group handled the Mortgage Credit Directive (MCD) transposition coordination.

Commission Expert Group on Banking, Payments and Insurance (CEGBPI)

The CEGBPI expert group was established in 2013, and it largely replaced the European Insurance and Pensions Committee (EIOPC). It provides assistance and consulting to the Commission when preparing the legislation proposals and delegated acts in the banking, payment services, and insurance industry. The group represents also a platform for communication and opinion exchange between the bodies of the individual member states and the Commission.

Within its configuration for the insurance industry, it handles not only expert topics, but also political topics related to insurance and the occupational pension insurance, including the insurance intermediary. In addition to representatives of the member states and the Commission, negotiation of the expert group in the insurance formation is in the observer's role also attended by representatives of the EIOPA supervision body and the EEA countries. Information of the member states related to the progress of transpositions of the respective EU regulations forms a part of the negotiation. In 2015, the CEGBPI discussed the following insurance issues: The insurance companies' renovation and issue resolution, infrastructure projects investments, long-term financing, equity investment, securitization, regulation equivalence of third countries, motor vehicle operation liability insurance issues in connection with the EU Court of Justice's recent decision, and proposed changes of the respective directive.

The Commission is using the CEGBPI in configuration for the banking sector, or banking regulation and supervision, as a platform for consultation of prepared delegated acts derived from the directive CRD IV[82] and the regulation on prudential requirements for credit institutions and investment firms regarding the CRR.[83] The expert group met in 2015 three times, and it participated in preparation of reports and delegated and implementing acts, which executed necessary changes and amendments of the CRR regulation provisions. Other topic discussed by the expert group included, for example, the macro-prudential issues, public consultation regarding the CRD IV directive (e.g. remuneration policies) and the CRR regulation (e.g. impact of capital requirements on the real economy financing, including SMEs), reviews of the existing limit exceptions for large exposures, and a lot of other regulation aspects derived from the CRD IV directive and the CRR regulation.

The first meeting of 2016 took place on 15 February 2016, and discussed reviews of the regulatory options and national discretions embedded in the CRD IV regulation, the CRR regulation, and the Commission's delegated regulation regarding the liquidity coverage requirement or the future approaches and processes within the regulatory areas, such as covered bonds, equivalence regulation evaluation, the EU supervision in connection with third countries, and further development within the regulatory technical standards produced by the EBA body.

Within the CEGBPI meeting in the configuration for the crisis resolution and crisis management in 2015, the Commission consulted with representatives of the member states especially proposed delegated acts derived from the BRRD directive and the SRMR regulation. In addition to producing delegated acts related to, for example, determination of critical functions, specification of circumstances to exclude certain liabilities from the application of the write-down or conversion, or amending BRRD and SRMR directives as for extraordinary ex-post contributions to the national resolution funds, the group also discussed insolvency ranking of certain banks' creditors. In this connection, the first two expert group meetings in 2016 were dedicated to the implementation of the Financial Stability Board (FSB) requirement for the total capacity of the global systemically important banks to absorb losses (so-called TLAC – Total Loss-Absorbing Capacity) and the review of the minimum requirement for own funds and eligible liabilities (MREL).

Barriers to Free Movement of Capital in the EU (DG FISMA)

The FISMA (the Directorate-General for Financial Stability, Financial Services, and the Capital Markets Union) is a new special-format expert group established in December 2014, whose objective rests in identification of possible capital free movement barriers across all the member states. If the existing capital free movement barriers are identified, the group would consider if those barriers can be overcome by harmonization, and in such a case, it will suggest to the Commission to delegate the issue to the respective group. If the barriers are of a domestic nature, it is up to the individual member states to pledge to remove them. On 13 October 2015, the first meeting discussing the next year's agenda took place. The second meeting took place in January 2016, where the agenda and the process modification of the cross-border investment-related withholding tax were further discussed.

[82] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

[83] Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending the CRR regulation with representatives of the member states and the EBA and ECB bodies.

Council of the European Union / ECOFIN

The Council of the European Union (informally referred to as the Council of the EU) brings together the ministers from the EU member states, who meet and adopt legislative acts and co-ordinate the functioning of individual policies. The key tasks performed by the Council of the EU include approving the EU's legislation, co-ordinating the main direction of the economic policies of the member states, signing agreements between the EU and other countries, approving the annual budget, developing the EU's foreign and defence policies, and co-ordinating the co-operation between the judicial organs and the police authorities in the member states. The presidency of the ECOFIN Council rotates every six months according to a pre-approved sequence (the Czech Republic held the presidency during the first half of 2009, Latvia and Luxembourg in 2015 and the Netherlands in 1. half of 2016). The Council does not have any permanent members. Each of the member states sends its representative (minister) responsible for a particular area of policy to each of the Council's meetings. The Council thus meets in various compositions (there are ten in total) according to the area to which the discussed materials belong.

The ECOFIN Council is the Council of the EU configuration consisting of the economics and finance ministers from the EU member states (if budget issues are on the agenda to be discussed, the budget ministers also attend the meetings). The competencies of the Council include the adoption of measures in areas such as the coordination and supervision of economic policies; the monitoring of budgetary policy and the state of public finances in the member states; the euro as the single currency; taxes; the financial markets; the free movement of capital; and economic cooperation with third countries. In addition, every year the ECOFIN council works in conjunction with the European Parliament to prepare and approve the EU budget. As a rule, the ECOFIN Council meets once a month. In addition, the economics and finance ministers meet informally in the presiding country once during its term. The governors of the central banks also participate in these informal meetings.

There are a number of expert committees as well as permanent and ad hoc working groups within the structure of the Council of the EU, who lead active discussions regarding legislative proposals. In the case of financial services, these comprise the Economic and Financial Committee, the Financial Services Committee, and the Working Party on Financial Services (referred to as D03).

In 2015, the ECOFIN Council approved general approaches to the Commission proposals that were discussed within the expert group for financial services; furthermore, it also discussed and informed on various agendas related to economic policy, taxes, financial markets, and capital movement.

During the individual meetings, the ECOFIN Council:

- Approved the regulation on authority of the European Central Bank (ECB) to impose sanctions[84] (on 27 January 2015);
- Discussed the European investment plan (February and May 2015);
- Decided not to block passing of the Commission's delegated act, which amends the CRR regulation[85], if regulation technical norms related to the capital requirements for institutions are concerned (17 February 2015);
- Discussed implementation of individual banking union components, especially as for accepting measures related to recovery processes and resolution, and appealed the member states to expedite passing of these measures on the national levels (10 March 2015);
- Acknowledged the current situation in the financial services legislation (12 May 2015);
- Approved the general approach to the proposed regulation on the structural measures to improve stability of the European Union's credit institutions (BSR); discussed implementation of individual banking union components, especially as for accepting measures related to recovery processes and resolution, and appealed the member states to finish the process of transposition and ratification of the relevant measures on the national levels, approved conclusions related to the Capital Market Union (CMU)(19 June 2015);

[84] Regulation of the European Council (EU) 2015/159 of 27 January 2015, amending Regulation (ES) 2532/98 on the powers of the European Central Bank to impose sanctions.

[85] Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

- Discussed so-called Five Presidents Report containing steps for completion of the economic and monetary union; passed a decision that adjusts processes related to functioning of the Single Resolution Mechanism (SRM)(14 July 2015);
- Discussed implementation of individual banking union components, especially as for accepting measures related to recovery processes and resolution, and appealed the member states to finish the process of transposition and ratification of the relevant measures on the national levels; acknowledges the Commission's Action Plan related to the Capital Market Union (CMU)(6 October 2015);
- Accepted conclusions in connection to the Commission's Action Plan related to the Capital Market Union (CMU); discussed implementation of individual banking union components, and urged passing of the relevant national measures; discussed temporary financing of the Single Resolution Fund; discussed measures implementing so-called Five Presidents Report containing steps for completion of the economic and monetary union (10 November 2015);
- Discussed work in connection with a proposed imposition of the Financial Transactions Tax (FTT) in 11 member states via the strengthened cooperation; discussed the Commission-submitted proposal of Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 for the purpose of establishing the European Deposit Insurance Scheme (EDIS), and the Commission's message to the European Parliament, Council, ECB, European Economic and Social Committee, and the Committee of the Regions – "Towards the Completion of the Banking Union"; discussed the current implementation status of some banking union components' implementation; discussed a proposed regulation of the European Parliament and of the Council stipulating the common securitization rules and creating a framework for a simple, transparent, and standardized securitization, and confirmed the general approach of the COREPER Committee to the securitization proposals (8 December 2015).

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

The FSC and the EFC are two of the ECOFIN Council´s permanent committees. The FSC Committee provides a forum for preliminary expert level discussion of issues related to financial services, and together with the EFC, it participates in preparation of individual ECOFIN Council's meetings. The FSC Committee consists of representatives of the individual EU member states' ministries of finance, the Commission, ECB, and the EBA, ESMA, and EIOPA European supervisory bodies.

The EFC's scope of activities rests especially in monitoring the economic and financial situation of the Eurozone's member states and the EU as a whole, produce reports for the ECOFIN Council and the Commission, and contribute to preparation of activities of the Council in the economic and financial sectors. Therefore, the EFC thematic scope is much wider than in the case of the FSC. The Committee meetings are attended by representatives of the EU member states' ministries of finance, the Commission, ECB, and the national Central banks.

Within the financial market topics, these committees discussed in 2015, for example, issues related to the Capital Market Union, securitization, sovereign exposures, functioning of the Single Resolution Mechanism (SRM), acceptance of level 2 measures, other capital requirements allowing for the loss absorption (TLAC), implementation of individual banking union components, development on the financial markets, and impact of the climatic changes on the financial markets. The committees further participated in preparation of the common position on issues discussed by the Financial Stability Board (FSB) and during the G20 meetings.

In July 2015, the expert group called High Level Working Group (HLWG), which revises the regulatory treatment of sovereign exposures (state debts), was established on the EFC level. In 2015, HLWG focused especially on the issues derived from the bank exposures to sovereigns. Other financial entities (insurance companies) are also subject to the revision, but the HLWG will include them in its analyses and considerations later, including introduction of possible further proceeding variants. The HLWG identified 5 basic further proceeding variants within the bank regulation, which will be subject to more detailed evaluation on the HLWG level. The regulatory framework revision work continues in 2016. The HLWG-produced output should be in the form of a submitted European solution proposal, which should newly regulate treatment of sovereign exposures. The passed European solution should then be passed on the international level, especially in the Basel Committee on Banking Supervision, which is preparing a new standard regulating the Banks' global regulatory approach regarding banks' sovereign exposures.

In 2016, the committees continue to discuss issues related to the Capital Markets Union, sovereign exposures, banking union implementation and development on the financial markets (including the climatic change impacts).

Working Party on Financial Services (D03)
The expert group of the Financial Services Council is one of the EU Council preparatory bodies, within which the Commission's respective legislative proposals related to the financial markets are discussed before they are submitted to the ECOFIN Council. Therefore, the expert group deals with a wider scope of topics whose particular list depends on the negotiation phase of the individual legislation proposals and also if new proposals (if any) were published. This expert group consists of experts from the individual EU member states with an expert from the EU presiding country presiding the group. Within the later proposal negotiation phases, the individual member states are represented by their respective financial attaches. During 2015, the Financial Services Council's expert group met four times, and it focused on proposed regulation of the European Long-Term Investment Funds (ELTIF), regulations on benchmarks, and proposed securitization regulation. In 2016, by the end of April, there were three meetings discussing the prospect (see Chapter 9.3).

Ad Hoc Working Party
In November 2015, the Commission published a proposal of the Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 for the purpose of establishment of the European Deposit Insurance Scheme and the Commission's message to the European Parliament, Council, ECB, European Economic and Social Council, and Council of the Regions – "Towards the Completion of the Banking Union". To discuss these issues, an ad hoc expert group was put together to support the banking union, and its first meeting took place in January 2016.

For more information related to the individual discussed proposals, see Chapter 9.3.

European Council

The European Council is the European Union's most important political body and comprises the highest representatives from the member states (heads of state and prime ministers) and the President of the Commission. The European Council meets at least four times a year and defines the general political directions for the EU. The European Council does not perform any legislative functions. After each of its meetings it is obliged to submit a report on its meeting to the European Parliament. The EP also receives an annual written report prepared by the European Council regarding the progress achieved by the Union.

During its meetings in 2015, the European Council focused on issues related to the Five Presidents Report containing steps needing to finish the economic and monetary union, which emphasized progress, especially in connection with (i) more efficient management of the economic and fiscal matters with the objective to support competitiveness, convergence, and sustainability; (ii) the external Eurozone representation so that its importance within the world economy is better expressed; and (iii) the banking union to strengthen the Eurozone's financial stability. The Capital Markets Union issues were also focused on.

9.2. Ministry of Finance's Activities on an International Level

OECD

The Organisation for Economic Co-operation and Development is an intergovernmental organisation of the worlds' thirty-four most developed countries, which have all adopted the principles of democracy and a market economy. The OECD was established in 1961 through the transformation of the Organisation for European Economic Co-operation (OEEC). The OEEC was originally established in 1948 to help administer the post-war Marshall Plan. The OECD coordinates the cooperation of its members in the sphere of economic and social policy, negotiates new investments, and promotes the liberalisation of international trade. The OECD's objectives are to facilitate further economic development; to suppress unemployment; and to stabilise and develop the international financial markets. The most important bodies within the OECD structure include the Council comprising the ambassadors from the OECD member states, the Executive Committee, the Secretariat led by the Secretary - General, and several expert committees.

Some of the OECD's activities transcend the national boundaries of its member states. The International Network on Financial Education (INFE) is only one example.

Committee on Financial Markets (CMF OECD)

The CMF Committee is the main OECD body focusing on the financial markets. It provides a platform for discussing developments and trends in the financial markets and the measures aiming at improvement of their functioning both in individual states as well as at the broader supranational level. The members of the CMF consist of representatives from the ministries of finance, central banks, and other regulatory and supervisory authorities. Representatives from international financial institutions, such as the International Monetary Fund, the World Bank, and the Bank for International Settlements, also participate in the committee's meetings, as well as representatives from associate emerging economies. Therefore, this is a geographically wider platform for discussions and experience sharing than, for example, discussions among the EU member states.

Regular meetings with representatives from the private financial sector are a specific regular feature of the committee's activities, at which important topics of common interest to both the public as well as the private sectors are discussed, in particular developments and trends in the global financial markets. The topics discussed during the committee meetings in April and October 2015, included the financial markets developments, implicit government guarantees for the financial sector, and some aspects of the cross-border structural reforms. A discussion on opportunities for a further development of the so-called green financing also took place. The Committee returned to the analysis by OECD experts regarding connections between the financial markets, real economy, and investment activity of firms in various world regions. Their future research regarding the comprehensive links between the developments of indebtedness and global economic activity could be of benefit, particularly for small, open, export-oriented economies, such as the Czech Republic.

In 2016, CMF during its April meeting focused especially on the market developments in the context of a worsening of the situation of emerging economies, development of short-term and long-term bonds, and so-called green financing.

During the same time period as the CMF meeting, there is usually also a meeting of the Advisory Task Force on the OECD Codes of Liberalisation. The main participants at these meetings include some of the members of the CMF, the IPPC, and the OECD Investment Committee from various countries. The discussions included specific financial markets regulatory measures (such as the Liquid Coverage Ratio - LCR) within the context of the OECD Codes of Liberalisation of Capital Movements and their revision.

Task Force on Financial Consumer Protection

The OECD's Task Force on Financial Consumer Protection Group processes international consumer protection standards related to the financial market, especially as for the supervision architecture, customer treatment rules, consumer dispute resolutions, financial education, and financial inclusion. These high-level principles reflect to a considerable degree the examples of already functioning regulatory practices in the EU, however, the process also acts retroactively as a sample for new regulation (particularly for the OECD countries that are not EU member states). The online international platform for sharing experiences and approaches of the OECD countries to the consumer protection regulation and related non-legislation activities continued to be built in 2015.

Insurance and Private Pensions Committee (IPPC OECD)

The IPPC is the main OECD body focusing on the insurance market, the supervision of the insurance sector, and private pension issues, i.e. the non-public pension security schemes (the private pensions issues are within the IPPC handled by the Working Party for Private Pensions – WPPP). The IPPC strives to attain international cooperation, coordination, and a higher level of compatibility with regard to the supervision of the aforementioned sectors of the financial market. The committee comprises representatives from the ministries of finance and those state administration authorities who are responsible for the insurance sector and private pensions. Representatives from the supervisory authorities of the OECD member states also participate in the IPPC meetings. In the case of open meetings, insurance market and trade union representatives may also attend.

In 2015, the IPPC Committee focused especially on the insurance companies' long-term assets investments (infrastructure investments, "green assets") with regard to the low interest rate environment. In the long-term, the committee will handle insurance and financing of the catastrophic risks whereas the main focus will be on the insurance related with the climatic change and the flood risk financial management. Discussions on so-called "governance practices" continue as well. As a new topic, the Committee focused on insurance of the cybernetic risk.

Working Party for Private Pensions (WPPP)

The WPPP focuses on similar topics as the IPPC, but with a closer focus on the pension fund sector, their asset managers, and participants in the private pension schemes, both the individual and occupational systems. After 2015, it continued to discuss a draft of the revised regulation principles within the private pensions schemes that newly include both the individual pension schemes and the pension systems provided to employees. It continued to discuss the issues related to annuities, longevity, long-term investing, and fiscal pension plan benefits. It regularly continues to collect and analyse data for the statistical databases under the OECD administration. The system evaluation processes used by Ireland and Mexico were introduced, as well as the access evaluation applied by Colombia and Latvia. New project proposals for the future periods were discussed as well.

International Network on Financial Education (INFE OECD)

The International Network on Financial Education is a platform institution (usually of ministries of finance and central banks) not only the OECD member states, which produces strategic documents on the global level. The Network's web pages[86] provide a gateway to information about financial education and the data, resources, research, and news from the individual member states.

In 2015, OECD organized measuring of the level of the financial literacy of adults with several dozens of countries participating in it. During 2015, the INFE network submitted the basic competences of the financial literacy of 15-18 year-olds to the G20 Group and began to produce the basic financial literacy competences of adults. The G20 Group also received a report on financial education of the micro, small, and mid-size companies and the OECD/INFE analysis of the migrants' financial education. Furthermore, the INFE activities focused on the financial education trends in Europe, financial education, inclusion, and consumer protection within the digital financial services world, investment education, methodology of evaluation of financially-educating programs and their databases, financial well-being, and last but not least, stimulation of pension plans.

Publication of the report on results of measuring the financial literacy of adults, concluding the open topics, and financial integration of refugees are planned for 2016.

G20

The G20 brings together the finance ministers and the central bank governors from nineteen countries[87] and the EU (which is represented by the presiding member state and the ECB). The G20 was established in 1999 as a forum in which the leading world economies are able to exchange their opinions regarding key issues related to the global economy. The Czech Republic is not a member of the G20 but is de facto represented by the representative for the European Union.

In 2015, the Group was presided by Turkey and within the summit in Antalya (November 2015) leaders:

- Confirmed completion of the key components of the financial markets regulation reform, especially as for the so-called international standard related to the requirement to create a capacity that would absorb incurred losses (TLAC) for the global systemically important banks, and they also approved the first version of these requirements for the global systemically important insurance companies;
- Advised on the necessity of further work on stability of the central counterparties and their resolution and, at the same time, further strengthening of supervision and regulation of the shadow banking;
- Confirmed the effort to progress in the implementation reform process related to OTC derivates.

9.3. European Financial Market Legislation

European Deposit Insurance Scheme (EDIS)

On 24 November 2015, the Commission published a proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme. This proposal should result in creation of the European Deposit Insurance Scheme that would amend the already approved the Single Supervision Mechanism (SSM) and the Single Resolution Mechanism (SRM). The objective of the European Deposit Insurance Scheme rests in the strengthened banking union, increased protection of depositors, strengthened financial stability, and reduced connection between banks and

[86] http://www.financial-education.org/, http://www.oecd.org/finance/financial-education/

[87] The member states of the G20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the USA.

governments. The proposal should apply to the deposit guarantee schemes in the member states that participate in the banking union and to the associated credit institution. In accordance to the proposal, the European Deposit Insurance Scheme should be created gradually, in three phases within eight years. The European Deposit Insurance Fund should be established and financed by risk-weighted contributions paid once a year directly by the credit institutions associated with the participating deposit guarantee schemes.

Payment Services (PSD II)
The directive of the European Parliament and of the Council on payment services on the internal market was published in the Journal on 23 December 2015.[88] The legal regulation is derived from the current Payment Services Directive (PSD). The directive newly regulates access to services of so-called payment services providers that act as the Third Party Providers (TPP). The Commission expects that new type of providers would improve competition, especially regarding to payments made over the internet. The directive also newly governs the conditions for monetary funds' protection, payment providers' access to the payment systems, and a consumer's participation in the case of payment fraud.

Interchange Fees (MIFR)
The regulation on interchange fees for the card-payment transactions was published in the Journal on 19 May 2015.[89] The legal regulation's objective rests in regulation of interchange fees for the card-payment transactions within the four party card schemes. The interbank fees are paid for each card transaction by the bank receiving the transaction to the bank that issued the card. The implementation of this regulation should lead to a higher acceptance of payment cards and will strengthen economic competition. The regulation also defines the conditions for accepting payment cards and for sharing one payment means between multiple schemes.

Capital Requirements (CRD IV and CRR)
Both the directive (CRD IV) and the regulation (CRR) were published in the Journal on 27 June 2013. The deadline for their implementation into the national legal regulations was set on 31 December 2013. The act implementing the CRD IV directives and the CRR regulations became effective on 22 July 2014.

Preparation of legislation proposals and delegated acts derived from the CRD IV directive and the CRR regulation continued in 2015. It applies especially to the Commission's regulation on delegated acts in the case of the liquidity coverage indicator of the leverage ratio indicator. Preparation of the regulatory technical standards and the implementation technical standards of the European Banking Authority, which are directly effective, but require adaptation of the national legal regulations of the EU member states, including the Czech Republic, also intensively continued.

Commodities Traders
On 16 December 2015, the Commission published a draft of the regulation of the European Parliament and of the Council, which amends the CRR regulation, on exceptions for the commodities traders.

The regulation draft extends exceptions from the obligation to adhere to capital requirements and large exposure requirements for the commodities traders by 3 years, i.e. until 31 December 2020. They would originally expire on 31 December 2017. The extension of the aforementioned exceptions is proposed because the overall review of regulations related to the investment companies (that include the commodities traders), which is carried out by the Commission in cooperation with EBC and ESC and the markets has not been completed yet and, therefore, it is not clear if these regulations should apply to the commodities traders and in what form. Based on the overview, the Commission can submit a legislation proposal to change the CRR regulation.

A draft proposal was published and submitted to the Council and European Parliament for negotiations. On 23 March 2016, the Council approved the proposal on extending the exception for commodity traders and forwarded the draft proposal to the European Parliament to be approved during the first reading.

[88] Directive of the European Parliament and of the Council (EU) 2015/2366 of 25 November 2015, on payment services on the internal market that amends Directives 2002/65/EC, 2009/110/EC, and 2013/36/EU, and Regulation (EU) No 1093/2010, and cancels Directive 2007/64/EC.

[89] Regulation of the European Parliament and of the Council (EU) 2015/751 of 29 April 2015, on interchange fees for the card-payment transactions.

Securitization

On 30 September 2015, the Commission submitted its proposal on changing the CRR[90] regulation, which will, together with the proposed regulation of the European Parliament and Council, newly set joint rules for securitization, and a European framework for STS securitization will be created (so-called Simple, Transparent, and Standardised securitization), one legislative package. The CRR regulation is mainly changed in its part three, title two, chapter 5, which concerns securitization. Following the securitization regulation, the CRR regulation had to be modified in terms of the capital requirements for institutions, which are originators, sponsors, or which invest into securitizations in order to take into account the specific signs of the STS securitization and to remove the flaws of the current approach that surfaced during the financial crisis. Another significant modification rests in the modified methods of determining risk-weighted exposure in securitization.

The proposal was discussed at COREPER on 2 December 2015 and ECOFIN on 8 December 2015, where the general approach was approved. After that, it was submitted to the European Parliament where its initial review began in the beginning of 2016.

Alternative Dispute Resolution (ADR)

The alternative dispute resolution adjustment derives from the regulation on alternative consumer dispute resolutions (ADR) and the regulation on on-line consumer dispute resolutions (ODR)[91] published in the Journal on 18 June 2013. The transposition deadline for the ADR regulation was 9 July 2015. The ODR regulation came into effect, except for some of its provisions, on 9 January 2016. As the issue involves general consumer provisions, the delegated owner of the ADR and ODR legislation is the Ministry of Industry and Trade. However, the provisions also affect financial services and, as a result, the MoF reviewed both proposals on an ongoing basis and actively cooperated with the delegated owner.

The goal of the ADR directive is to allow consumers to submit their both domestic and international disputes with traders (or service providers) deriving from the sale of goods or provision of services, to an alternative dispute resolution subject (ADR subject). The ADR entities will have to be able to accept online submissions (due to the implementation of the associated ODR regulation). The directive does not specify in detail any process, which should be followed by ADR subjects; nevertheless, it specifies that potential process rules must not significantly worsen the consumer's access to ADR. The directive also specifies some minimum qualitative requirements for the ADR subjects in the area of impartiality, transparency, efficiency, and justice. The ADR process should be provided to the consumer either free of charge or for only a slight fee. The member states could have already utilized the functioning ADR subjects or created new subjects. The goal should be to secure the consumers' full access to alternative dispute resolution at various geographical locations and in different sectors.

Consumer Loans (CCD)

In 2013, the Commission began reviewing the transposition of the Consumer Credit Directive (CCD) and cancellation of the directive on converging the legal and consumer credit-related administrative regulations of the member states. The goal of the review was to find out how the directive was implemented, which of the regulatory options were selected by the member states, and whether the directive should be modified or not. In connection with this, the Commission initiated a series of meetings of member state representatives that ended in March 2015 when it became clear that no directive revision was necessary and that the main future task is rather to reinforce the enforceability of the rules specified by the valid version.

European Long-Term Investment Funds (ELTIF)

On 26 June 2013, the Commission published its proposal on a regulation on European long-term investment funds. The proposed regulation is linked to the AIFM directive and supplements a number of issues to meet its purposes. The European long-term investment fund (ELTIF) is to invest at least 70% of its assets in long-term assets and the rest may be invested as UCITS fund. It will be possible to offer ELTIFs to both qualified as well as retail investors. In the case it is offered to a retail investor, additional requirements will apply, specifically in the form of a minimum initial investment and a mandatory suitability test.

[90] Proposed Regulation on changing Regulation (EU) No 575/2013, on prudential requirements for credit institutions and investment companies.

[91] Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC (Directive on consumer ADR) and European Parliament and Council Directive (EU) No 524/2013 of 21 May 2013 on on-line consumer dispute resolutions and change of Regulation (EC) No 2006/2004 and Directive 2009/22/EC (ODR).

Meetings of the Council's Working Party regarding the proposal for the regulation were initiated in March 2014 and an agreement on the General Approach was reached in June. Trialogues were launch in October 2014. These were successfully completed in the beginning of December 2014, and the final regulation proposal text was approved without any discussion at Coreper II on 11 February 2014.

On 10 March 2015, the regulation proposal was approved by the European Parliament and on 20 April 2015 by the Council. The Regulation on European long-term investment funds (ELTIF) was published in the Journal on 19 May 2015.[92] Due to a short adaptation period (6 months), the regulation was adapted through an amendment of the Budget Committee in November 2015. The bill was approved by the Senate on 20 April 2016.

Money Market Funds (MMFs)
On 4 September 2013, the Commission published its proposal on regulation on money market funds that, in light of the financial crisis experiences, proposes measures strengthening stability and securing sufficient liquidity of money market funds (MMFs). The proposed regulation places strict requirements especially on money market funds with constant asset values (so-called constant net asset value - CNAV MMFs). Meetings of the Council's Working Party were not initiated until July 2014, which is a relatively long time since the publication of the proposal for the regulation. The last working group's meeting took place on 1 December 2014. No agreement was reached so far, and no other working group meetings took place in connection with the proposal. The Dutch chairmanship decided to resume discussions and convened the first meeting for 13 April 2016 with the goal to reach agreement at the Council by the end of June 2016. On 26 February 2015, the ECON Committee of the European Parliament commented on the proposal as well.

Benchmarks
On 18 September 2013, the Commission published its proposal on regulation on indices that are used as benchmarks in financial instruments and financial contracts. The proposal is a response to the manipulation with the LIBOR and EURIBOR interest rate benchmarks. All of the published indices that are used as benchmarks for various financial purposes should be regulated. Particularly strict regulation should be applied in the case of critical benchmarks. On 13 February 2015, a general approach was accepted at a Coreper II meeting. On 2 June 2015, trialogues among the EU Council, Commission, and European Parliament began. During a trialogue taking place on 24 November 2015, a preliminary consent over a compromise proposal was reached. On 3 December 2015, a political agreement was reached, and it was confirmed by Coreper II on 9 December 2015. The European Parliament approved the proposal in April 2016. Its publication in the Journal is expected by the end of June 2016. However, the regulation will only be fully applicable after the approval of implementing rules.

Capital Market Union (CMU)
The important topic of 2015 was the creation of the Capital Market Union (CMU). In connection with this, the Commission published the Green Book (18 February 2015) and the follow-up Action Plan (30 September 2015). The CMU should help improve the access to financing, especially for small and mid-size companies, complete infrastructure and long-term projects, widen and diversify sources of financing and generally improve the functioning of the capital markets as an alternative to the traditional bank financing of the real economy. To reach these goals, in 2015 two legislative proposals were issued. They specified the uniform securitization rules – 30 September 2015[93] and the regulation on prospect on 30 November 2015. The EU Council adopted a general approach to the proposal on securitization in the end of 2015 (see below).

Securitization and STS securitization
The regulation proposal on securitization and STS securitization was published by the Commission on 30 September 2015 together with its Action Plan for the CMU as its first the CMU legislative proposal (proposed CRR amendment related to securitization was published as well – see below).

The regulation proposal especially harmonizes the securitization requirements and centrally specifies the rules identified in the sector legislature so far (CRR, delegated Act on AIMFD, delegated Act on Solvency II, and prepared delegated acts on UCITS IV). They include the basic rules of due diligence, risk retention, and

[92] Regulation of the European Parliament and Council (EU) 2015/760 of 29 April 2015 on European long-term investment funds.

[93] A chairmanship compromise on the proposed regulations of the European Parliament and Council, which specifies the joint rules for securitization and creates a European framework for simple, transparent, and standardized securitization, and that amends Directive 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulation (EC) No 1060/2009 and (EU) No 648/2012 and Regulation of the European Parliament and Council on the change of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment companies (CRR).

transparency. It also specifies the rules for STS securitization, which is a new voluntary European designation for less risky securitizations. This also relates to the banks' lower capital requirements proposed in the CRR amendment and prepared changes of requirements for insurance companies' solvency in delegated Act on Solvency II. The Czech Republic primarily accepts this proposal because securitization is not massively utilized on the Czech market and its massive utilization is not expected in the future either. During discussions, the Czech Republic's main goal includes the intelligibility and applicability of this regulation.

The proposal was discussed at COREPER on 2 December 2015 and on ECOFIN on 8 December 2015, and a general approach was reached. The Basel Committee published its consulting material in a similar area on 10 November 2015.

The Prospect
On 30 November 2015, the Commission introduced its proposed Prospect regulation, which should be published during the public offering or when accepting securities for trading. This regulation should replace the directive on the prospect[94], which should be published during the public offering or when accepting securities for trading, and on amending Directive 2001/34/EC. This is a very important step toward creation of the CMU. The first meeting took place on 13 January 2016, and other five meetings took place by April 2016.

In general, the Czech Republic supports this proposal; however, it believes that the implementing measures should have the form of technical standards, and not of deleted acts. The Czech Republic can accept the proposed limit increase in connection to not using the regulation on the public offering and the prospect from EUR 5 million to EUR 10 million only subject to the member states' retaining their discretion to decrease it (currently, it is EUR 1 million in the Czech Republic). The Czech Republic considers shortening of the prospect's approval deadline from 10 to 5 days for the frequent issuers to be undue. The Czech Republic further proposes to extend the adaptation deadline to 24 months so that there is enough time provided for adaptation with regard to the legislation process length in the Czech Republic.

Insurance Sector
In 2015, the Commission issued the regulations and decisions relevant to the Solvency II directive. These documents consist mainly of the Commission's implementing acts containing technical standards that govern other internal models, the supplementary capital, capital requirement calculations or review of the external credit evaluations, information obligations, and the reporting format (the complete overview is provided in Appendix 1, Section 5).

Distribution of Insurance Products (IDD)
The need to revise the Insurance Mediation Directive (IMD) was identified already in 2007, and it was mainly because of the big differences between the national insurance intermediary governances further emphasized by the financial crisis then. The IMD revision reacted to the need to strengthen the consumer protection components in the system, ensure internally consistent and mutually neutral regulation of the financial services as a whole from the aspect of products, as well as distribution, unify approach to the supervision and administrative punishment execution, and simplify or clarify the mode of cross-border activities on the EU internal insurance market. Within the logics of the directive's extended applicability also to the insurance direct sales carried out by the insurance companies, there was also a change of its title (newly IDD – Insurance Distribution Directive).

The new Insurance Distribution Directive[95] remains in the minimum harmonization mode. For the individual member states, it would represent only a certain minimum required and within the internal market guaranteed consumer protection level with the option to add national regulations within certain regulation areas. The member states should transpose the IDD into their national legal regulations by 23 February 2018.

Financial Transaction Tax (FTT)
In September 2011, the Commission submitted a proposal for a directive on a common system for a financial transaction tax (FTT). Since some member states opposed this, the ECOFIN Council passed on 22 January 2013, a decision that enables eleven member states to continue to work on the financial transaction tax system strengthened cooperation mode, in accordance with Article 326 et seq. of the Treaty on the European Union. The decision passed by the qualified majority where the Czech Republic, together with Luxembourg, Malta, and the United Kingdom abstained from voting. States working within the strengthened cooperation reached

[94] Directive of the European Parliament and of the Council 2003/71/EC of 4 November 2003, on the Prospect.
[95] Directive of the European Parliament and of the Council 2016/97 of 20 January 2016, on the insurance distribution.

the next phase, and these states are now processing the minimum tax variant for the securities and selected derivates trading. However, there are no tangible results as of yet.

OTC Derivatives, Central Counterparties, and Trade Repositories (EMIR)
The European Market Infrastructure Regulation (EMIR) is the regulation regarding the OTC ("Over-The-Counter") derivates, central counterparties, and business data registers. Implementing measures are published for this regulation on a regular basis. In 2015, this applied to the measures that extends transitional periods of the pension system components[96], as well as to the measures establishing the obligation to implement central clearing of selected derivates.[97] The EU-USA dialog on the mutual recognition of the legal regulation regarding the counterparties and mandatory clearing with the objective to avoid a collision between the EU and USA regulations also took place and, on 24 February 2016, it resulted in an agreement.[98]

The main objective of EMIR rests in decreasing or eliminating the system risk by applying several basic principles – a higher standardization of the OTC derivate instruments, trade settlements using the central counterparties, a massive regulation of central counterparties, higher transparency, and information obligation. In addition to the central counterparties and the trade repositories, both financial as well as non-financial institutions will be subject to regulation.

Central Securities Depositories (CSDR)
The regulation on central securities depositories is a part of a recently popular trend in the regulation of the market infrastructure. The CSDR was published in the Journal in July 2014 and the process transposing it into the national legal codes has been initiated. Implementing measures for the regulation were produced during 2015.

The main objective of the regulation rests in the increase of the operation safety of the settlement systems, elimination of legal obstacles derived from the national law governing function of the systems and the central securities depository as their operators, especially obstacles related to various settlement periods, and standards applied to the central securities depositories from the aspect of the prudential regulation and a possible access of the national central securities depositories and systems they operate. The complete dematerialization or immobilization of securities traded on the organic markets should take place within a longer time-horizon.

Banking Structural Reform (BSR)
The Commission published its proposal for a regulation on banking structural reform (BSR) in January 2014. The Commission's proposal is based on the ideas presented in the Liikanen Report, however, it deviates from then quite significantly. As for the negotiation stage, the Council reached an agreement on the general approach on 19 June 2015; however, the European Parliament has not taken its stand and, therefore, trialogues have not started yet.

At the general level, the aim of the proposed regulation is to create a resilient, transparent, and responsible banking system and to decrease the risk of the failure of banks that are of such significance that the member states cannot afford to not rescue them. These are referred to as too-big-to-fail (TBTF) banks. The proposed regulation also has the objective of supplementing the ongoing reform of the regulatory framework in the banking sector at the Union level.

The Regulation should include approximately 30 biggest EU banks and bank groups, in which these banks are associated. These bank groups will be divided into the so-called core credit institutions – CCI and trading entities – TE. This division's criterion rests in the fact if the client accounts managed by the institution in question are included in the compensation fund for the case of this institution's bankruptcy (if it manages such accounts, it is CCI). Czech banks are typically CCIs (i.e. deposit banks). All of the CCI in the banking groups affected by the regulation will be prohibited from participating in proprietary trading (i.e. on own account, with the aim of achieving a profit and without a link to the services they provide to clients). In addition, the trading activities of the entire group will be subject to audits to ensure that they have not exceeded the

[96] Commission Delegated Regulation (EU) 2015/1515 of 5 June 2015, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council regarding the extension of the transitional periods related to pension scheme arrangements.

[97] Commission Delegated Regulation (EU) 2015/2205 of 6 August 2015, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council regarding the regulation technical standards and mandatory clearing.

[98] Commission Implementing Decision (EU) 2016/377 of 15 March 2016, on the equivalence of the regulatory framework of the United States of America for central counterparties that are authorized by the Commodity Futures Trading Commission and are subject to its supervision and requirements stipulated in the Regulation (EU) No 648/2012 of the European Parliament and of the Council.

defined trading thresholds for investment instruments. If yes, the supervisory body should request separation of trading activities from CCI to TE. This TE will then be prohibited to provide client accounts covered by the compensation systems.

There is a general problem related to the Liikanen report, as well as the Commission proposal, resting in the fact that since the Liikanen report was published, regulatory measures to strengthen the banking sector, including a possible separation of certain activities, were passed. The most significant reform in this respect was the adoption of CRD IV, which has introduced considerably stricter prudential requirements for credit institutions, including TBTF banks. The BRRD directive represents another important regulation that enables the resolution authorities to order separation of certain activities if it is necessary for the resolvability of a certain credit institution or securities trader. Risks related to the OTC derivates are covered in detail by the passed regulation on the OTC derivates (EMIR). Currently, there is an initiative to implement TLAC on the G-20 level, which should address the problem of TBTF banks.

Reporting of Securities Financing Transactions (SFT)
A regulation on transparency of trades[99] related to financing and reuse and on amendment of Regulation (EU) No 648/2012 were published in the Journal on 23 December 2015. The regulation specifies binding requirements related to reporting and transparency of trades providing financing, and it applies to all financial instruments provided as collateral in accordance with Section C, Appendix I of the MiFID. The aim of the regulation is to limit the unintentional effects of ongoing parallel reforms of the banking system, which could lead to a shift of certain activities to a less regulated area, such as the shadow banking sector, and to thus decrease the room for regulatory arbitrage.

The regulation contains obligations imposed on the contracting parties participating in the re-hypothecation (a repeated use of accepted collateral as a security). Re-hypothecation will only be possible if the receiving contracting party is provided with written notification about the associated risk, and with the prior consent of the providing contracting party incorporated in the contract, and under the condition that the appropriate transactions are included in the securities accounts.

Institutions for Occupational Retirement Provision (IORP II))
In April 2014, the Commission submitted a proposal of the directive on activities of the Institutions for Occupational Retirement Provision (IORP II) to the EU Council and the European Parliament. It is a revision of the IORP I. The general objective of the proposal is to promote savings activities within the framework of occupational pension schemes, to facilitate the cross-border activities of institutions for occupational retirement provision by removing the remaining obstacles, and to contribute towards the equitability and sustainability of pensions through the effective and prudent management of resources and risk management. By Decree No 71 of 29 May 2014, the Chamber of Deputies acknowledged this proposal on the grounds that it would have to be monitored so that the government's right to organize the pension system will not be interfered with. On 10 December 2014, the Council's general approach was accepted, and in 2015, the proposal was discussed in the European Parliament. Political and technical trialogues were commenced in 2016.

9.4. National Financial Market Legislation

Deposit Guarantee Schemes
Legislation work on an amendment to the Act on Banks and the Act on Savings and Credit Unions related to transposition of the directive on the deposit guarantee schemes (DGSD) continued in 2015. The aim of the provisions contained in the DGSD is to harmonise the level of protection afforded to depositors and to ensure the same level of stability for the deposit guarantee schemes in all of the EU member states. Thanks to the wider scope of insured deposits, shorter payment periods (from original 20 to current 7 business days), better informing and harmonized financing requirements, depositors should have a much better access to the deposit guarantee schemes.

The deadline for transposition of the DGSD directive (with the exception of certain provisions) was set at 3 July 2015. The act draft was submitted to the government in April 2015, and on 28 December 2015, it was integrated in the Collection of Laws under No 375/2015 Coll., effective on 1 January 2016.

[99] Regulation of the European Parliament and Council (EU) 2015/2365 of 25 November 2015, on trading transparency.

In connection to Act No 375/2015 Coll., Decree No 12/2016 Coll., on the depositor information template concerning the deposit guarantee scheme for the client came into effect on 20 January 2016.

Crisis Management in the Financial Sector
As of 1 January 2016, Act No 374/2015 Coll., on Recovery and Resolution in the Financial Market, and Act No 375/2015 Coll., amending certain acts in relation with the Act on Recovery and Resolution in the Financial Market and in relation with the deposit guarantee system modification, came into effect. These acts implement the BRRD directive whose objective rests in specification of rules to prevent and resolve possible crises of credit institutions and securities traders. The basic principle determines that costs of these institutions' crises (if any) are primarily borne by shareholders and creditors via their assets' write down or conversion.

Building Savings Product
During 2015, preliminary legislation work took place in connection with a proposed act amending Act No 96/1993 Coll., on building savings and state contribution for building savings and on the amendment of Act No 586/1992 Coll., on income tax, as amended by Act of the Czech National Council No 35/1993 Coll., as amended. The reason for submitting the proposed act mainly rests in a higher efficiency of supervision execution regarding adherence to conditions to receive the state support for the building savings schemes. The bill also introduces changes in terms of adding a registered partner between the close persons and a possibility to use a loan from the building savings banks to finance residential needs of such a person, and also several smaller modifications regarding information exchange on a returned state supports, which should contribute to a better practical functioning of this information exchange. In March 2016, this proposal was discussed by the Legislative Council of the Government of the Czech Republic. On 11 April 2016, the act was passed by the government and forwarded to the Chamber of Deputies. It is expected that the new legislative act will enter into force by the end of 2016.

Capital Market I
On 26 January 2015 a draft bill was submitted to the government for amending Act No 256/2004 Coll. on capital market undertakings, as amended, and certain other related legislation. The bill mainly contains changes that monitor implementation of the European legal regulations, namely the amendments to the transparency directive (TD II) and Omnibus II in connection with the prospect, the regulation on central depositories (CSDR), and the amendments of the UCITS (UCITS 5) directive and the recommended quality of reporting on the company administration and management. Certain changes at the national level that are included in the amendment are the result of the need to respond to market developments and reflect findings from practice. The proposed changes strive to make the funding business more attractive (especially in connection with a corporation that has a variable basic capital), simplify process issues related to the capital market (especially to the prospect approval), and harmonize administrative fees on the financial market. The government passed the act on 29 July 2015, and the draft was submitted to the Chamber of Deputies (Printout 571). The Chamber of Deputies' implementing acts modified the regulation on the European Long-Term Investment Funds (ELTIF), decreased the minimum entry investment amount for the qualified investors' funds, and partially transposed an amendment of the accounting directive (Directive 2014/95/EU amending Directive 2013/34/EU) in relation with issuers whose shares or bonds are accepted for trading on a regulated market. The bill was passed by the Parliament of the Czech Republic and submitted for the president's signature on 26 April 2016.

The bill amends the following acts:

- Act No 256/2004 Coll., the Capital Market Undertakings Act, as amended;
- Act No 15/1998 Coll., on the supervision in the capital market area and on amendment of other acts, as amended;
- Act No 240/2013 Coll., on investment companies and investment funds, as amended;
- Act No 634/2004 Coll., on administrative fees, as amended, and
- Act No 586/1992 Coll. on income tax, as amended.

Capital Market II
On 9 September 2015, the Act proposal, which amends Act No 256/2004 Coll., the Capital Market Undertakings Act, as amended, and other related acts were submitted to the government. The bill was returned to the government on 16 March 2016, to factor in suggestions of the Legislative Council of the Government. The bill contains mainly changes that implement several union capital market regulations, namely Directive 2014/65/EU of the European Parliament and of the Council on the Market in the Financial

Instruments (MiFID II), Regulation (EU) No 600/2014 of the European Parliament and of the Council on the Markets in the Financial Instruments (MiFIR), Regulation (EU) No 596/2014 of the European Parliament and of the Council on Market Abuse (MAR), Directive 2014/57/EU of the European Parliament and of the Council on Criminal Sanctions on Market Abuse (CSMAD), and Commission Implementing Directive (EU) 2015/2392 to Regulation No 596/2014 of the European Parliament and of the Council related to reporting of the real or possible breaches of this regulation to the respective bodies. Currently, the act is proposed to become effective on 3 January 2018, with regard to the proposed effectiveness delay of MiFID II and MiFIR and their EU implementing acts. With regard to the effectiveness of MAR (3 July 2016), selected related amendment items will become effective on the thirtieth day after this act's integration. Earlier effectiveness dates are also proposed for some changes, which are not directly related to MiFID II and that represent a national modification or transposition clarification of already transposed directives.

In general, the proposed legal framework should contribute to a higher undertaking effectivity and transparency in the financial market sector. As a reaction to the technical progress in this area, a new trading platform is introduced in the form of the Organized Trading Facility (OTF), the High-Frequency Trading (HFT) is regulated, and new entities, so called data reporting service providers (APA, CTP, and ARM) are established. Modification of information obligations imposed on the regulated entities and the client treatment rules increase protection of investors. The legal regulation related to investment intermediaries was significantly changed. The amendment also harmonizes and modernizes modification of the administrative sanctions.

The bill changes:

- Act No 256/2004 Coll., the Capital Market Undertakings Act, as amended;
- Act No141/1961 Coll., on criminal judicial procedure (the Criminal Procedure Act), as amended;
- Act No 455/1991 Coll., the Trade Licensing Act, as amended;
- Act No 21/1992 Coll., on banks, as amended;
- Act No 87/1995 Coll., on credit unions, as amended;
- Act No 15/1998 Coll., on the Supervision in the Capital Market Area and Amendment of Other Acts, as amended;
- Act No 634/2004 Coll., on administrative fees, as amended;
- Act No 40/2009 Coll., the penal code, as amended, and
- Act No 240/2013 Coll., on investment companies and investment funds, as amended.

Alternative Dispute Resolution (ADR)

The Ministry of Industry and Trade is the sponsor; however, the MoF commented on both the bills, actively cooperated with the sponsor, and has cooperated in transposition of the ADR directive and adaptation of the ODR regulation within the Ministry of Industry and Trade's expert group since September 2013. Implementation of the ADR directive or the law adaptation in accordance to the ODR regulation was carried out by Act No 378/2015 Coll., which amended Act No 634/1992 Coll., on consumer protection, as amended, and certain other acts, and it was integrated in the Collection of Laws on 28 December 2015.

Based on the ODR regulation, the online platform that enables consumers to extrajudicially resolve their conflicts with traders currently from 18 EU states upon filling-out a form in their native language was formed. This platform has been available to users since 16 February 2016.

A financial arbitrator continues to be the competent authority for resolution of disputes related to provided or intermediated financial services even after the aforementioned amendment of the Act on Consumer Protection. In accordance with requirements derived from the ADR directive, the amendment brings only smaller changes in the Financial Arbitrator Act. They mainly apply to the financial arbitrator's extended scope to all types of loans provided to consumers (i.e. especially mortgages, but also any loans, credits, and other similar financial services that are currently excluded from the scope of the Consumer Loans Act – e.g. cash loans up to CZK 5,000), and also to offering, providing, or intermediating building savings and provision of investment services. At the same time, the financial arbitrator's scope is restricted to exclusive resolution of disputes proposed by consumers and expanded by the financial arbitrator's authority to request explanation or supporting documents from other participants that are not parties to the proceeding.

Distribution of Insurance Products

In 2015, the government submitted an amendment of Act No 38/2004 Coll., on insurance intermediaries and loss adjusters to the chamber of deputies. The proposed amendment represented a complex novelization with the objective to strengthen the consumer protection within the sector, better supervision effectiveness, and increases requirements for distributors of insurance products and services. With regard to disagreement on a need and form of regulation of financial relationships within the life insurance distribution, it was withdrawn from the Chamber's negotiation in July 2015. In March 2016, the government submitted a partial amendment of the act to the Chamber of Deputies, and it only concerns modification of financial relationships within distribution. The new integrated legislation (the Insurance Distribution Act), which transposes the new IDD directive, will be submitted to the government by the MoF by the end of 2016.

Distribution of Consumer Loans

The government's bill of the consumer loan act representing a new complex legislation on consumer loans (newly including mortgages) transposes the respective European legal regulations (MCD, CCD) and reacts to incurred domestic problems in negotiation of retail loan products. Therefore, this act primarily strengthens the consumer protection within the sector – it makes requirements imposed on non-bank loan providers and intermediaries more restrictive, creates conditions for efficient supervision of such parties' activities, and directly improves consumer rights against loan distributors. This act establishes, for example, more transparent communication of certain key product information, restricts the total sanction fee amounts related to delays on payments, improves position of persons who strive to pay-off their debts early, etc. Some loan providers' delicts carry significant sanctions, which should have a deterring effect, and it should lead to the overall improvement of situation in this long-term problematic sector of the financial market. The planned unification of licensing and supervision competences under the CNB represents an important change of the institutional nature. The government's proposal was submitted to the Chamber of Deputies in December 2015; the proposal was in its 2nd reading in April 2016.

Pension Reform

On 1 July 2015, Act No 163/2015 Coll. was integrated in the Collection of Laws, and it amends Act No 426/2011 Coll., on retirement savings, as amended, which prevented enrolment of new participants into the Pillar 2 of the pension system, in accordance with the government's intention. At the end of 2015, Act No 376/2015 Coll., on termination of retirement savings, and Act No 377/2015 Coll., amending certain acts in connection with the Act of Termination of Retirement Savings were passed and came into effect on 1 January 2016.

Termination of the retirement savings, in accordance with the Act on Termination of Retirement Savings, respects the annual retirement savings payment cycle. Therefore, as of January 2016, retirement savings schemes were terminated. No later than at the end of March, the pension management company will request from its retirement savings participants to notify it no later than at the end of September 2016, if they wish to withdraw all their savings or have them transferred to his Pillar 3 contract. Liquidation of the retirement funds will begin in July 2016. Participants will receive their funds during the fourth quarter of 2016.

The act, which amends certain acts in connection with the Act on Termination of Retirement Savings, also contains partial changes within Pillar 3, i.e. in the supplementary pension savings. They allow enrolment of children into the system, release certain investment limits for the purpose of higher valuation of the participants' funds, and exempt pensions paid for the minimum of 10 years from the income tax. Another change in Pillar 3 effective from 2017 will rest in increased limit of tax relief.

The Expert Committee for Pension Reform is still negotiating setting of Pillar 3.

Insurance Sector

During 2015, a bill that changes Act No 277/2009 Coll., on the insurance sector, as amended, and other related acts, was discussed in the Chamber of Deputies. The purpose of this proposal on amendment of the Act on the Insurance Sector is to transpose Solvency II and its associated directives into the Czech legal order. Due to differing views on insurance intermediary commission regulation, the bill was not approved, and it was re-submitted to the Chamber of Deputies in March 2016.

Legislative works on the amendment of Act No 168/1999 Coll., on the insurance of liability for loss due to vehicle operation and on the change of some related acts, as amended, took place as well. The proposed amendment responds to the judgment of the Court of Justice of 4 September 2014 in the C-162/13 matter, in order to align domestic legal regulations with the EU law. Specifically, the mandatory insurance of one's liability for vehicle operation should be extended to his vehicle operation outside public roads in order to make sure this insurance covers any vehicle operation in line with the vehicle's function. The bill was discussed by the Government Legislative Council in the beginning of 2016.

Based on government decree No 992 of 1 December 2014, the MoF, Ministry of the Interior, and Ministry of Health completed a draft legislation on mandatory health insurance of foreigners that was included in the amendment of Act No 326/1999 Coll., on the foreigners' stay on the Czech Republic's territory, as amended. The government will discuss this proposal.

Since 2015, the MoF has been actively cooperating with the Ministry of Regional Development in the implementation of directive 2015/2302/EU on comprehensive travel services and associated travel services in connection with the new legislation on the mandatory insurance of travel agencies against bankruptcy.

Monetary Circulation
On 3 September 2015, the Chamber of Deputies received a government bill that changes some acts in the area of monetary circulation and foreign exchange economy and cancels Act No 219/1995 Coll., Foreign Exchange Act, as amended. The bill is primarily a technical amendment of the Act of the Circulation of Bills and Coins. Specifically, it simplifies the procedure of replacing bills and coins damaged in a non-standard way, and the requirements for so-called deposit ATMs get lowered in order to allow them to only reject suspicious coins without having to keep them because it was technically very difficult.

The bill also cancels the Foreign Exchange Act. During the past 20 years, the foreign exchange economy liberalization lead to the significant decrease of the Foreign Exchange Act substance. In addition, the foreign exchange legislation was transferred to a separate Act on Foreign Exchange Activity. Resultantly, the Foreign Exchange Act is currently only a torso, which may be cancelled without any problems and at least partially contribute to the streamlining of the Czech legal order. The legislation on emergency condition in the foreign exchange economy is transferred to the Emergency Act where it belongs.

Payment Accounts
In December 2015, the government was submitted a bill that changes Act No 284/2009 Coll., on payments, as amended, and other related acts. The bill was submitted due to the transposition of the European Parliament's and Council's Directive 2014/92/EU of 23 July 2014 on comparability of fees associated with payment accounts, payment account change, and access to payment accounts with basic features. The act features the obligation to align the payment terminology, rules of operating comparative websites, and mandatory allowing of payment account change (so-called switching). The act also introduces the banks' obligation to offer so-called basic payment account. Another reason of submitting this bill was the adaptation of the Act on Payments to the European Parliament's and (EU) Council's Directive (EU) 2015/751 of 29 April 2015 on interchange fees for credit card payment transactions.

9.5. Non-Legislative Financial Market Activities of the MoF

Anti-Debt Alliance (APD)
The MoF participates in the activities of the Anti-Debt Alliance, which is an expert platform comprising representatives from various state institutions and non-profit organisations. The Alliance was established in May 2011 on the basis of an initiative of the Ministry of the Interior’s Department of Crime Prevention; Probation and Mediation Services; and the Association for Probation and Mediation in Justice. The goal of the Alliance is to find solutions to the problems associated with over-indebtedness, which could lead to the repeated committing of crimes. The Alliance aims to connect with partners, including organisations from abroad, who are involved in the same issues and to follow up their comparable activities and to use their experience and analyses in order to create proposals that will minimise over-indebtedness and the associated risk.

The Alliance's ten key objectives are expressed in the Founding Statement of the Anti-Debt Alliance. Four working groups have been established to help to realise these objectives, specifically working groups for: Consumer Credit; Debt Collection; Financial Literacy; and Alternative Debt Relief Methods. The members of these working groups meet on a regular basis. In addition, representatives from the professional public are invited to participate in round table discussions.

In 2015, the APD members focused on the area of so-called territoriality of executors or the comments on the new legislation on consumer loan distribution solicited by the MoF through a public consultation.

Financial Education
The MoF heads the Working Group on Financial Education (WGFE), which provides a platform for the exchange of the opinions and information about the experience of its members. It includes representatives of

the public sphere (the MoF, Ministry of Education, Youth, and Sports and other ministries, and CNB), representatives of professional associations operating on the financial market, subjects completing financial education projects (primarily non-profit organizations and consumer associations), academia representatives, and health care experts. The members of the WGFE try to find a common approach for improving the financial literacy of the Czech population.

In 2015, the MoF began its revision of the National Financial Education Strategy. The revision process includes the adult population's financial literacy measuring (this is a joint activity with OECD joined by a few dozens of countries of the whole world) whose results will be published during spring 2016, revision of strategic documents (including the Framework policy of the MoF concerning consumer protection on the financial market), mapping of financial education projects, and then a revision of the National Financial Education Strategy text itself.

The MoF also continuously administers its crossroad portal of financial education and financial literacy called, "Why to get financial education?" www.psfv.cz, which is designated for the wide general and expert public. The portal provides a single point for accessing information about the functioning and risks of the financial market, and about financial education in the Czech Republic and abroad. Among others, it features family finances, including household budget development; the structure, financial market institutions and products; dispute resolution, advices and guidance primarily focused on excessive debts, debt relief and executions, links to interesting Czech and foreign websites with projects, games, and calculators, contact information of consumer and debt advisory organisations, which provide assistance free of charge during disputes with financial market institutions or during periods of personal hardship.

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LIST OF ACRONYMS AND ABBREVIATIONS

Abs.	absolute
ADA	Anti-Debt Alliance (Aliance proti dluhům)
ADR	Alternative Dispute Resolution
AIFMD	Alternative Investment Fund Managers Directive
AKAT	Capital Market Association (Asociace pro kapitálový trh České republiky)
APR	Annual Percentage Rate of Charge
APS CR	Association of Pension Management Companies of the Czech Republic (Asociace penzijních společností České republiky)
ARAD	Czech National Bank's time series database
bn	billion
b.p.	basis point
BRRD	Bank Recovery and Resolution Directive
BSR	Regulation on Bank Structure
CA	current account
CCD	Consumer Credit Directive
CCI	core credit institutions
CEGBPI	Commission Expert Group on Banking, Payments and Insurance
CMF	Committee on Financial Markets
CMU	Capital Markets Union
CNAV MMFs	Constant Net Asset Value Money Market Funds
CNB	Czech National Bank
CNY	Chinese renminbi - International currency code
COREPER	Comité des Représentants Permanents (Committee of Permanent Representatives)
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRDWG	Capital Requirement Directive Working Group
CRR	Capital Requirements Regulation
CSDR	Central Securities Depositories Regulation
CSMAD	Criminal Sanctions for Market Abuse Directive
CSO	Czech Statistical Office
CZ	Czech Republic
CZK	Czech crown – International currency code
ČS	Česká spořitelna, a. s. (commercial bank)
ČSOB	Československá obchodní banka, a. s. (commercial bank)
D03	Working Group for Financial Services
DG FISMA	The Directorate-General for Financial Stability, Financial Services and Capital Markets Union
DGSD	Deposit Guarantee Schemes Directive
DIF	Deposit Insurance Fund
EBA	European Banking Authority
EBC	European Banking Committee
EBRD	European Bank for Reconstruction and Development
EC	European Communities
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECON	Committee on Economic and Monetary Affairs
ECSF	European Crowdfunding Stakeholders Forum
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EFC	Economic and Financial Committee
EFCC	European Financial Conglomerates Committee
EFTA	European Free Trade Association
EGESC	Expert Group of the European Securities Committee
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
EIOPC	European Insurance and Occupational Pensions Committee

ELTIF	European Long Term Investment Funds
EMIR	European Market Infrastructure Regulation (Regulation on OTC derivatives, central counterparties, and business data registers)
ESC	European Securities Committee
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro - International currency code
EURIBOR	Euro Interbank Offered Rate
EuSEF	European Social Entrepreneurship Funds Regulation
EuVECA	European Venture Capital Funds Regulation
FA	Financial Arbitrator
Fed	Federal Reserve System (Central Bank of the USA)
FSB	Financial Stability Board
FSC	Financial Services Committee
FTT	Financial Transaction Tax
G20	Group of the world's biggest economies represented by finance ministers and central bank governors
GBP	British Pound - International currency code
GDP	Gross Domestic Product
GEGMCD	Government Expert Group on Mortgage Credit Directive
GEGRFS	Government Expert Group on Retail Financial Services
HFT	High-Frequency Trading
HICP	Harmonized Indices of Consumer Prices
HUF	Hungarian Forint – International currency code
IBRD	International Bank for Reconstruction and Development
IDD	Insurance Distribution Directive
IMD	Insurance Mediation Directive
INFE	International Network on Financial Education
IORP	Institutions for Occupational Retirement Provision Directive
IPPC	Insurance and Private Pensions Committee
JPY	Japanese Yen - International currency code
KB	Komerční banka, a. s. (commercial bank)
LCR	Liquidity Coverage Ratio
LE	legal entity
LIBOR	London Interbank Offered Rate
MAD	Market Abuse Directive
MAR	Market Abuse Regulation
max.	maximum
MCD	Mortgage Credit Directive
mn	million
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MIFR	Multilateral Interchange Fee Regulation
ML	mortgage loan
MLSA	Ministry of Labour and Social Affairs
MMFs	Money Market Funds
MoF	Ministry of Finance of the Czech Republic
MRD	Ministry of Regional Development
No	number
ODR	Online Dispute Resolution
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OTC	over-the-counter
OTF	organised trading facility
p.a.	per annum (per year)

PF	participating fund
PI	private individual
PLN	Polish Zloty – International currency code
p.p.	percentage point
PRIBOR	Prague Interbank Offered Rate
PRIIPs	Packaged Retail and Insurance-based Investment Products Regulation
PSE	Prague Stock Exchange
PSD	Payment Service Directive
PX	Primary PSE index
PXE	Power Exchange Central Europe
PX-GLOB	PSE index with wide base
PX-TR	PSE index that takes account of dividends (Total Return)
RM-S	RM-Systém
RUB	Russian Ruble - International currency code
SC	state contribution
SFTR	Securities Financing Transaction Regulation
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
STGF	Securities Traders Guarantee Fund
STS Securitization	Simple, Transparent and Standardised Securitization
TBTF	too-big-to-fail
TD II	Transparency Directive
TE	Trading Entities
TF	transformed fund
TLAC	Total Loss-Absorbing Capacity
TPP	Third Party Provider
TREA	Total Risk Exposure Amount
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
USA	the United States of America
USD	US Dollar – International Currency Code
WPPP	Working Party on Private Pensions
WGFE	Working Group on Financial Education

APPENDIX 1: FINANCIAL MARKET LEGISLATION

The following changes were made to the financial market legislation of the Czech Republic and of European Union in 2015:

A1.1. Cross-Sectoral Financial Market Regulations

1) European legislation and other initiatives published in 2015*:*

- none

2) Pending European legislation (including legislation published after 31 December 2015) and other initiatives of the European Commission:

- Commission Delegated Regulation of 14 December 2015 correcting Delegated Regulation (EU) 2015/63 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements;
- Commission Delegated Regulation of 2 February 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to the circumstances and conditions under which the payment of extraordinary ex-post contributions may be partially or entirely deferred, and on the criteria for the determination of the activities, services and operations with regard to critical functions, and for the determination of the business lines and associated services with regard to core business lines;
- Commission Delegated Regulation of 4 February 2016 specifying further the circumstances where exclusion from the application of write-down or conversion powers is necessary under Article 44(3) of Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms;
- Commission Delegated Regulation of 18 March 2016 on classes of arrangements to be protected in a partial property transfer under Article 76 of Directive 2014/59/EU of the European Parliament and of the Council;
- Commission Delegated Regulation of 23 March 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the content of recovery plans, resolution plans and group resolution plans, the minimum criteria that the competent authority is to assess as regards recovery plans and group recovery plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of write-down and conversion powers, the procedures and contents of notification requirements and of notice of suspension and the operational functioning of the resolution colleges.

3) Acts that took effect in 2015:

- Draft Bill amending Act No 256/2004 Coll., on capital market, as amended, and certain related legislation (Transparency Amendment) (in effect from 31. 12. 2015).

4) Pending legislation (including acts already adopted that have not taken effect before 31 December 2015):

- Draft Bill on consumer credit (expected to take effect in the second half of the year 2016);
- Draft Bill changing certain legislation in connection with the adoption of the Act on Consumer Credit;
- Draft Bill amending Act No 256/2004 Coll., on capital market, as amended, and certain related legislation (expected to take effect since January 2018)(MiFID II novel).

5) Secondary legislation:

- Draft Decree of the Czech National Bank on application, announcements, and information according to the Act on Consumer Credit (expected to take effect in the second half of the year 2016);
- Draft Decree of the Czech National Bank of professional qualification for distribution of consumer credit (expected to take effect in the second half of the year 2016).

A1.2. Capital Market Legislation

1) European legislation and other initiatives published in 2015:

- Commission Delegated Regulation (EU) 2015/1of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards for the periodic reporting on fees charged by credit rating agencies for the purpose of ongoing supervision by the European Securities and Markets Authority;
- Commission Delegated Regulation (EU) 2015/2 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards for the presentation of the information that credit rating agencies make available to the European Securities and Markets;
- Commission Delegated Regulation (EU) 2015/3 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards on disclosure requirements for structured finance instruments;
- Commission Delegated Regulation (EU) 2015/97 of 17 October 2014 correcting Delegated Regulation (EU) No 918/2012 as regards the notification of significant net short positions in sovereign debt;
- Commission Delegated Regulation (EU) 2015/761 of 17 December 2014 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to certain regulatory technical standards on major holdings;
- Commission Delegated Regulation (EU) 2015/514 of 18 December 2014 on the information to be provided by competent authorities to the European Securities and Markets Authority pursuant to Article 67(3) of Directive 2011/61/EU of the European Parliament and of the Council;
- Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds (ELTIF);
- Commission Delegated Regulation (EU) 2015/1605 of 12 June 2015 amending Regulation (EC) No 1569/2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2015/1612 of 23 September 2015 amending Decision 2008/961/EC on the use by third countries' issuers of securities of certain third country's national accounting standards and International Financial Reporting Standards to prepare their consolidated financial statements;
- Commission Implementing Directive (EU) 2015/2392 of 17 December 2015 on Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation.

2) Pending European legislation (including legislation published after 31 December 2015) and other initiatives of the European Commission:

- Proposal for a regulation of the European Parliament and of the Council of 4 September 2013 on Money Market Funds;
- Proposal for a regulation of the European Parliament and of the Council of 18 September 2013 on indices used as benchmarks in financial instruments and financial contracts;
- Action Plan on Building a Capital Markets Union' of 30 September 2015 (CMU);
- Proposal for a regulation of the European Parliament and of the Council of 30 September laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012;
- Proposal for a regulation of the European Parliament and of the Council of 30 September 2015 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms;
- Proposal for a regulation of the European Parliament and of the Council of 30 November on the prospectus to be published when securities are offered to the public or admitted to trading.

3) Acts that took effect in 2015:

- none

4) **Pending legislation (including acts already adopted that have not taken effect before 31 December 2015):**
- Draft Bill amending Act No 256/2004 Coll., on capital market, as amended, and certain related legislation (expected to take effect since June 2016, TD II novel);
- Draft Bill amending Act No 256/2004 Coll., on capital market, as amended, and certain related legislation (expected to take effect since January 2018, MiFID II. novel).

5) **Secondary legislation:**
- Decree No 344/2014 Coll., amending decree No 247/2013 Coll., on applications according to Act No 240/2013 Coll., on investment companies and investment funds (in effect from 1. January 2015).

A1.3. Banking Sector Legislation, Including Building Savings Schemes and Credit Unions

1) **European legislation and other initiatives published in 2015:**
- Commission Delegated Regulation (EU) 2015/488 of 4 September 2014 amending Delegated Regulation (EU) No 241/2014 as regards own funds requirements for firms based on fixed overheads;
- Commission Delegated Regulation (EU) 2015/585 of 18 December 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the specification of margin periods of risk;
- Commission Delegated Regulation (EU) 2015/850 of 30 January 2015 amending Delegated Regulation (EU) No 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for own funds requirements for institutions;
- Commission Delegated Regulation (EU) 2015/942 of 4 March 2015 amending Delegated Regulation (EU) No 529/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards regulatory technical standards for assessing the materiality of extensions and changes of internal approaches when calculating own funds requirements for market risk;
- Commission Delegated Regulation (EU) 2015/923 of 11 March 2015 amending Delegated Regulation (EU) No 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for own funds requirements for institutions;
- Commission Delegated Regulation (EU) 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440;
- Commission Delegated Regulation (EU) 2015/1556 of 11 June 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the transitional treatment of equity exposures under the IRB approach;
- Commission Delegated Regulation of 16 December2015 laying down general principles and criteria for the investment strategy and rules for the administration of the Single Resolution Fund;
- Commission Delegated Regulation of 17 December 2015 supplementing Regulation No (EU) 806/2014 of the European Parliament and the Council with regard to the criteria relating to the calculation of ex-ante contributions, and on the circumstances and conditions under which the payment of extraordinary ex-post contributions may be partially or entirely deferred;
- Council Implementing Regulation (EU) 2015/81 of 19 December 2014 specifying uniform conditions of application of Regulation (EU) No 806/2014 of the European Parliament and of the Council with regard to ex ante contributions to the Single Resolution Fund;
- Commission Implementing Regulation (EU) 2015/880 of 4 June 2015 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions;
- Commission Implementing Regulation (EU) 2016/99 of 16 October 2015 laying down implementing technical standards with regard to determining the operational functioning of the colleges of supervisors according to Directive 2013/36/EU of the European Parliament and of the Council;

- Commission Implementing Regulation (EU) 2015/2197 of 27 November 2015 laying down implementing technical standards with regard to closely correlated currencies in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2326 of 11 December 2015 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulation (EU) No 575/2013 and Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015 laying down implementing technical standards with regard to currencies with constraints on the availability of liquid assets in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2015) and other initiatives of the European Commission:

- Regulation of the European Parliament and of the Council amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (referred to as securitization);
- Commission Delegated Regulation (EU) 2016/98 of 16 October 2015 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards for specifying the general conditions for the functioning of colleges of supervisors;
- Commission Delegated Regulation (EU) 2016/101 of 26 October 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105(14);
- Commission Implementing Regulation (EU) 2016/100 of 16 October 2015 laying down implementing technical standards specifying the joint decision process with regard to the application for certain prudential permissions pursuant to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2016/230 of 17 February 2016 amending Implementing Decision 2014/908/EU as regards the lists of third countries and territories whose supervisory and regulatory requirements are considered equivalent for the purposes of the treatment of exposures according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme (referred to as EDIS).

3) Acts that took effect in 2015:

- none

4) Pending legislation (including acts already adopted that have not taken effect before 31 December 2015):

- Act No 374/2015 Coll., on recovery and resolution in the financial market (effective from 1 January 2016);
- Act No 375/2015 Coll., amending some acts in relation to the adoption of the Act on recovery and resolution in the financial market and in relation to changes to deposit guarantee scheme (effective from 1 January 2016);
- Act No 104/2016 Sb., amending Act No 96/1993 Coll., on building savings and state contribution for building savings and on the amendment of Act No 586/1992 Coll., on income tax, as amended by Act of the Czech National Council No 35/1993 Coll., as amended (in effect as of 6 April 2016);
- Draft Bill amending Act No 96/1993 Coll., on building savings and state support for building savings and on the amendment of Act No 586/1992 Coll., on income tax, as amended by Act of the Czech National Council No 35/1993 Coll., as amended (expected to take effect in the first half of 2016).

5) Secondary legislation:

- Decree No 12/2016 Coll., on the depositor information template concerning the deposit guarantee scheme for the client (in effect as of 20 January 2016).

A1.4. Payment Services and Market Infrastructure Legislation

1) European legislation and other initiatives published in 2015:

- Regulation (EU) No 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (referred to as MIFR);
- Commission Delegated Regulation (EU) No 2015/1515 of 5 June 2015 amending Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the extension of the transitional periods related to pension scheme arrangements;
- Commission Delegated Regulation (EU) No 2015/2205 of 6 August 2015 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on the clearing obligation;
- Regulation (EU) No 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (referred to as SFTR);
- Directive (EU) No 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (referred to as PSDII).

2) Pending European legislation (including legislation published after 31 December 2015) and other initiatives of the European Commission:

- none

3) Acts that took effect in 2015:

- Act No 261/2014 Coll. amending some acts in the field of financial market (partially in effect as of 1 January 2015).

4) Pending legislation (including acts already adopted that have not taken effect before 31 December 2015):

- Draft Bill amending Act No 284/2009 on payment system, as amended, and other related acts (expected to take effect on 18 September 2016).

5) Secondary legislation:

- none

A1.5. Insurance and Private Pension Systems Legislation

1) European legislation and other initiatives published in 2015:

- Commission Implementing Regulation (EU) 2015/460 of 19 March 2015 laying down implementing technical standards with regard to the procedure concerning the approval of an internal model in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/461 of 19 March 2015 laying down implementing technical standards with regard to the process to reach a joint decision on the application to use a group internal model in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/462 of 19 March 2015 laying down implementing technical standards with regard to the procedures for supervisory approval to establish special purpose vehicles, for the cooperation and exchange of information between supervisory authorities regarding special purpose vehicles as well as to set out formats and templates for information to be reported by special purpose vehicles in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/498 of 24 March 2015 laying down implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/499 of 24 March 2015 laying down implementing technical standards with regard to the procedures to be used for granting supervisory approval for the

use of ancillary own-fund items in accordance with Directive 2009/138/EC of the European Parliament and of the Council;

- Commission Implementing Regulation (EU) 2015/500 of 24 March 2015 laying down implementing technical standards with regard to the procedures to be followed for the supervisory approval of the application of a matching adjustment in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Delegated Decision (EU) 2015/1602 of 5 June 2015 on the equivalence of the solvency and prudential regime for insurance and reinsurance undertakings in force in Switzerland based on Articles 172(2), 227(4) and 260(3) of Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Delegated Decision (EU) 2015/2290 of 12 June 2015 on the provisional equivalence of the solvency regimes in force in Australia, Bermuda, Brazil, Canada, Mexico and the United States and applicable to insurance and reinsurance undertakings with head offices in those countries;
- Commission Delegated Regulation (EU) 2015/2303 of 28 July 2015 supplementing Directive 2002/87/EC of the European Parliament and of the Council with regard to regulatory technical standards specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions;
- Commission Implementing Regulation (EU) 2015/2011 of 11 November 2015 laying down implementing technical standards with regard to the lists of regional governments and local authorities, exposures to whom are to be treated as exposures to the central government in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2012 of 11 November 2015 laying down implementing technical standards with regard to the procedures for decisions to set, calculate and remove capital add-ons in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2013 of 11 November 2015 laying down implementing technical standards with regard to standard deviations in relation to health risk equalisation systems in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2014 of 11 November 2015 laying down implementing technical standards with regard to the procedures and templates for the submission of information to the group supervisor and for the exchange of information between supervisory authorities in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2015 of 11 November 2015 laying down implementing technical standards on the procedures for assessing external credit assessments in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2016 of 11 November 2015 laying down the implementing technical standards with regard to the equity index for the symmetric adjustment of the standard equity capital charge in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2017 of 11 November 2015 laying down implementing technical standards with regard to the adjusted factors to calculate the capital requirement for currency risk for currencies pegged to the euro in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2451 of 2 December 2015 laying down implementing technical standards with regard to the templates and structure of the disclosure of specific information by supervisory authorities in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2015) and other initiatives of the European Commission:

- Proposal for a Directive of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision (recast) (referred to as IORP II);
- Commission Implementing Regulation (EU) 2016/165 of 5 February 2016 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 1 January until 30 March 2016 in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Solvency II);
- Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings;
- Commission Delegated Decision (EU) 2016/309 of 26 November 2015 on the equivalence of the supervisory regime for insurance and reinsurance undertakings in force in Bermuda to the regime laid down in Directive 2009/138/EC of the European Parliament and of the Council and amending Commission Delegated Decision (EU) 2015/2290;
- Commission Delegated Decision (EU) 2016/310 of 26 November 2015 on the equivalence of the solvency regime for insurance and reinsurance undertakings in force in Japan to the regime laid down in Directive 2009/138/EC of the European Parliament and of the Council;
- Proposal for a Directive of the European Parliament and of the Council of 7 July 2012 amending Directive 2002/92/EC on the insurance mediation (recast) (referred to as IMD II/IDD);
- Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (IDD);
- Consultation Paper on the creation of a standardised Pan-European Personal Pension product (PEPP).

3) Acts that took effect in 2015:

- Act No 163/2015 Coll., amending Act No 426/2011 Coll., on retirement savings, as amended (effective from 1 July 2015).

4) Pending legislation (including acts already adopted that have not taken effect before 31 December 2015):

- Act No 376/2015 Coll., on termination of retirement savings (effective from 1 January 2016, some provisions from 1. January 2018);
- Act No 377/2015 Coll., amending certain legislation with regard to the adoption of the Act on Termination of Retirement Savings (effective from 1 January 2016, some provisions from 1. January 2017 and 1 January 2018);
- Draft Bill amending Act No 277/2009 Coll., the Insurance Act, as amended, and certain other related legislation (expected effective date in the second half of 2016);
- Draft Bill amending Act No 168/1999 Coll., Motor Third-Party Liability Insurance Act, as amended (expected effective date in the first half of 2017);
- Draft Bill amending Act No 38/2004 Coll., on insurance intermediaries and independent loss adjusters and the Trade Licensing Act (Insurance Intermediaries and Loss Adjusters Act), as amended, and certain other related legislation.

5) Secondary legislation:

- Draft Decree of the Czech National Bank on applications according to the Insurance Act (expected effective date in the second half of 2016);
- Draft Decree of the Czech National Bank implementing certain provisions of the Insurance Act (expected effective date in the second half of 2016).

APPENDIX 2: SUPPLEMENTARY TABLES

Table A2.1: Loans by type

As at 31 Dec (CZK bn)	2013	2014	2015	Year-on-year change	
				Abs.	(%)
Overdrafts and debit balances of current accounts	143.6	148.2	150.9	2.7	1.8
Consumer loans (excl. overdrafts and debit balances of current accounts)	187.0	186.3	203.1	16.8	9.0
Housing loans excl. mortgages	132.2	127.1	126.9	-0.1	-0.1
Mortgage loans for residential properties	789.5	844.3	911.6	67.3	8.0
Mortgage loans for non-residential properties	120.2	120.7	117.9	-2.8	-2.3
Other loans	514.7	545.2	544.3	-0.8	-0.1
Investment loans	585.4	619.6	697.2	77.6	12.5
Bridge loans	2.6	2.5	0.5	-2.1	-82.0
Trade receivables	39.1	41.1	30.4	-10.7	-26.1
Total	2,514.3	2,634.9	2,782.4	147.5	5.6

Source: CNB – ARAD

Table A2.2: Net assets in domestic mutual funds, by distributor

Mutual fund (CZK bn)	Net assets		Share in 2015 (%)	Year-on-year change	
	2014	2015		Abs.	(%)
Česká spořitelna	70.6	82.3	40.4	11.7	16.6
Investiční kapitálová společnosti KB	33.8	39.9	19.6	6.1	18.1
Generali Investments CEE, investiční společnost	15.9	18.0	8.8	2.1	13.4
Raiffeisenbank	9.4	12.7	6.2	3.3	34.5
ČSOB Asset Management, investiční společnost	9.5	11.9	5.9	2.4	25.7
Conseq Investment Management	7.8	10.9	5.4	3.1	39.8
Pioneer investiční společnost, a.s.	8.5	9.0	4.4	0.6	6.7
J&T investiční společnost	3.8	7.0	3.5	3.2	84.6
AXA Investiční společnost	5.4	6.3	3.1	0.9	16.1
Other members of AKAT	2.3	5.5	2.7	3.2	-57.3
Total	167.0	203.5	100.0	36.6	21.9

Note: In 2014, the value of Conseq Investment Management represents the value of the managed assets of the Conseq Funds investiční společnost.

Source: AKAT

Table A2.3: Net assets in foreign mutual funds, by distributor

Mutual fund (CZK bn)	Net assets		Share in 2015 (%)	Year-on-year change	
	2014	2015		Abs.	(%)
ČSOB Asset Management, investiční společnost	80.0	87.3	48.0	7.3	9.1
Pioneer Asset Management	15.2	17.2	9.5	2.0	13.3
Česká spořitelna	16.2	16.3	9.0	0.1	0.8
NN Investment Partners	15.2	15.7	8.7	0.6	3.7
Komerční banka	6.4	14.6	8.0	8.3	129.6
Conseq Investment Management	11.0	13.3	7.3	2.4	21.5
Raiffeisenbank	4.9	5.2	2.9	0.3	6.1
Generali Investments CEE, investiční společnost	2.9	3.3	1.8	0.5	17.2
BNP Paribas Asset Management	2.7	1.9	1.0	-0.8	-29.7
Other members of AKAT	7.6	6.8	3.8	-0.7	-9.6
Total	161.9	181.8	100.0	19.0	11.8

Note: NN Investment Partners is expressed including the assets of ING Bank N. V., organizační složka.

Source: AKAT

Table A2.4: Net assets in domestic qualified investors funds by administrators

Qualified investor fund (CZK bn)	Net assets		Share in 2015 (%)	Year-on-year change	
	2014	2015		Abs.	(%)
AVANT investiční společnost	14.2	17.8	25.9	3.6	25.6
AMISTA investiční společnost	21.4	13.6	19.9	-7.7	-36.2
Investiční kapitálová společnosti KB	13.8	10.8	15.8	-3.0	-21.6
Generali Investments CEE, investiční společnost	5.4	6.8	9.9	1.4	26.0
J&T investiční společnost	4.8	5.7	8.3	0.9	18.5
QI investiční společnost	4.4	5.5	8.0	1.1	24.2
Česká spořitelna (group)	4.1	3.6	5.2	-0.5	-12.4
ČSOB Asset Management, investiční společnost	2.0	2.5	3.7	0.5	24.0
Pioneer investiční společnost, a.s.	1.2	1.2	1.7	0.0	-0.6
Other members of AKAT	0.9	1.0	1.5	0.1	9.1
Total	72.2	68.5	100.0	-3.7	-5.1

Note: The Group of Česká spořitelna represents the managed assets of Erste Asset Management, GmbH, pobočka Česká republika, and the REICO investiční společnost České spořitelny.

Source: AKAT

Table A2.5: Main development indicators for the building savings banks sector in the Czech Republic

As at 31 Dec		2010	2011	2012	2013	2014	2015
New building savings contracts	number	532,765	410,461	433,093	449,588	481,439	373,096
	change (%)	-7.4	-23.0	5.5	3.8	7.1	-22.5
Average target value for new building savings contracts with private individuals	value (CZK th)	300.5	346.2	366.1	370.8	336.0	371.1
	change (%)	-2.7	15.2	5.7	1.3	-9.4	10.5
Building savings contracts in savings phase	number	4,845,319	4,550,468	4,316,999	4,066,684	3,825,367	3,503,349
	change (%)	-1.6	-6.1	-5.1	-5.8	-5.9	-8.4
Paid state contribution	value (CZK bn)	11.7	10.7	5.3	5.0	4.8	4.6
	change (%)	-11.5	-8.6	-50.7	-6.4	-3.9	-4.2
Average state contribution paid per building savings contract for the relevant year	value (CZK)	2,631.0	1,324.0	1,312.3	1,315.7	1,314.7	-
	change (%)	-5.2	-49.7	-0.9	0.3	-0.1	-
Saved amount	value (CZK bn)	430.1	433.4	435.0	429.1	413.6	384.2
	change (%)	3.6	0.8	0.4	-1.4	-3.6	-7.1
Loans in total	number	993,357	956,659	894,358	815,160	752,558	695,439
of which: building savings loans	number	564,633	552,999	521,312	471,441	425,508	380,873
bridging loans[100]	number	428,724	403,660	373,046	343,719	327,050	314,566
	change (%)	0.5	-3.7	-6.5	-8.9	-7.7	-7.6
Loans in total	value (CZK bn)	293.4	293.1	282.2	261.4	249.6	242.7
of which: building savings loans	value (CZK bn)	53.1	55.8	55.7	51.7	48.0	43.9
bridging loans[100]	value (CZK bn)	240.3	237.3	226.5	209.7	201.6	198.7
	change (%)	9.7	-0.1	-3.7	-7.4	-4.5	-2.8
Ratio of loans in total to saved amount	ratio (%)	68.2	67.6	64.9	60.9	60.4	63.2

Source: Building savings banks

[100] Loans according to Section 5 (5) of Act No 96/1993 Coll. on building savings and state contribution for building savings, as amended.

Table A2.6: Allocation of pension funds' assets

As at 31 Dec (market prices, CZK bn)	2009	2010	2011	2012	2013	2014	2015	Share 2015 (%)
Bonds	171.6	195.3	214.2	235.9	256.9	300.3	324.4	87.0
Treasury bills	2.2	1.1	0.6	6.8	0.9	1.7	4.7	1.3
Shares	3.5	1.9	1.0	0.6	0.9	0.5	0.9	0.2
Unit certificates	6.9	8.7	5.7	3.1	3.8	5.0	6.5	1.7
Money and other assets	31.5	25.2	26.0	26.8	34.9	31.7	36.5	9.8
Total	215.7	232.1	247.5	273.2	297.4	339.2	373.1	100.0

Source: APS CR, CNB – ARAD

Table A2.7: Main development indicators for the supplementary pension insurance in transformed funds

As at 31 Dec		2009	2010	2011	2012	2013	2014	2015
Supplementary pension insurance contracts[101]	number	4,394,522	4,527,774	4,565,741	5,134,862	4,886,675	4,585,149	4,281,621
	change (%)	4.5	3.0	0.8	12.5	-4.8	-6.2	-6.6
New supplementary pension insurance contracts	number	524,867	495,516	457,033	1,128,020	-	-	-
	change (%)	-11.1	-5.6	-7.8	146.8	-	-	-
Supplementary pension insurance policies with employer's contribution	number	1,261,525	1,284,736	1,271,934	1,317,563	1,339,000	1,313,766	1,289,925
	change (%)	3.2	1.8	-1.0	3.6	1.6	-1.9	-1.8
State contributions for a given period	value (CZK bn)	5.3	5.5	5.6	5.9	6.8	6.6	6.3
	change (%)	5.1	3.0	1.7	5.6	15.0	-3.3	-4.8
Participants' contributions[102]	value (CZK bn)	23.0	23.2	23.4	25.5	33.0	31.6	30.1
	change (%)	4.9	1.1	0.9	8.8	29.3	-4.3	-4.6
Average monthly state contribution	value (CZK)	105.2	105.0	105.4	108.0	117.0	119.0	122.0
	change (%)	0.3	-0.2	0.4	2.5	8.2	2.1	2.5
Average monthly participant's contribution	value (CZK)	443.9	439.6	441.7	465.0	568.0	574.0	589.0
	change (%)	-1.5	-1.0	0.5	5.3	22.2	1.1	2.6

Source: MoF

[101] Data reflects number of policies, which are not closed in the relevant records..
[102] Participants' contributions are reported without the contributions paid by employers for their employees.

Table A2.8: Main development indicators for the supplementary pension savings in participating funds

As at 31 Dec		2013	2014	2015
Supplementary pension savings contracts[103]	number	76,669	217,985	361,395
	change (%)	-	184.3	65.8
New supplementary pension savings contracts	number	77,771	145,841	156,062
	change (%)	-	87.5	7.0
of which transfer from supplementary pension insurance[104]	number	1,284	14,221	12,959
Supplementary pension savings policies with employer contribution	number	13,461	40,719	72,358
	change (%)	-	202.5	77.7
State contributions for a given period	value (CZK bn)	0.062	0.270	0.539
	change (%)	-	335.5	99.6
Participants' contributions[105]	value (CZK bn)	0.342	1.341	2.573
	change (%)	-	292.1	91.9
Average monthly state contribution	value (CZK)	143	148	152
	change (%)	-	3.5	2.7
Average monthly participant's contribution	value (CZK)	749	722	722
	change (%)	-	-3.6	0.0

Source: MoF

[103] Status at the end of period; data reflects number of policies, which are not closed in the relevant records.
[104] Participants' assets were transferred from transformed fund to participating fund according to § 191 Act No 427/2011 Coll.
[105] Participants' contributions are reported without the contributions paid by employers for their employees.

Table A2.9: Placement of insurance technical reserves

As at 31 Dec (CZK bn)	2014			2015			Abs. year-on-year change			Year-on-year change (%)		
	LI	NLI	Total	LI	NLI	Total	LI	NLI	Total	LI	NLI	Total
Debt securities	199.8	75.7	303.8	184.6	72.3	282.4	-15.2	-3.4	-21.4	-7.6	-4.4	-7.0
Of which: Bonds issued by the member state or its national central bank	118.1	55.5	185.6	107.1	52.2	171.8	-11.0	-3.3	-13.8	-9.3	-5.9	-7.4
Bonds issued by banks of Member States	19.6	4.6	28.0	20.3	4.0	27.8	0.8	-0.6	-0.2	4.0	-13.8	-0.8
Listed bonds issued by corporations	18.3	6.2	31.1	19.2	6.3	30.9	0.9	0.0	-0.2	4.9	0.6	-0.5
Treasury bills	0.2	1.8	5.2	0.3	1.8	2.5	0.1	0.0	-2.7	54.5	-0.5	-52.3
Listed municipal bonds	2.0	0.6	3.0	1.8	0.6	2.8	-0.2	0.0	-0.1	-10.5	-3.8	-4.2
Mortgage bonds	20.0	4.3	25.8	14.6	4.7	22.0	-5.3	0.5	-3.8	-26.7	11.3	-14.8
Bonds issued by EIB, ECB, EBRD or IBRD	6.9	1.3	8.2	5.3	0.9	6.2	-1.6	-0.3	-2.0	-23.5	-27.0	-23.9
Foreign debt securities traded on any regulated market of OECD Member States	14.1	1.3	16.2	10.0	1.6	12.4	-4.1	0.4	-3.8	-28.9	29.8	-23.6
Equity securities	52.9	9.7	85.5	50.2	11.4	84.9	-2.7	1.7	-0.6	-5.1	17.3	-0.7
Of which: Listed shares	4.9	0.6	5.6	3.5	0.6	4.5	-1.5	0.0	-1.1	-29.5	1.6	-19.7
Securities by mutual funds complying with EC regulations	36.3	4.7	44.1	32.7	6.4	42.7	-3.5	1.7	-1.3	-9.7	37.2	-3.0
Other receivables	0.3	1.1	1.8	0.3	1.0	1.7	0.0	-0.1	-0.1	-6.4	-5.2	-6.3
Real estate	0.3	2.2	5.1	0.3	3.0	4.9	0.0	0.8	-0.2	-2.0	35.9	-3.3

Source: CNB

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