



Ministry of Finance of the Czech Republic
Financial Market Analyses Department

**REPORT ON FINANCIAL MARKET
DEVELOPMENTS IN 2007**

May 2008



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SUMMARY

Economy	The economy of the Czech Republic in the year 2007 recorded growth rates similar to 2006. GDP in real terms increased by 6.5 %. The GDP growth was sourced mainly by domestic demand. The national unemployment rate in 2007 decreased to 6.6 %, which represented the minimum rate in the last 10 years.
Entities in financial market	Competition is constantly growing in the Czech financial market, also due to the increasing number of entities operating in the Czech Republic under the so-called single European passport. Operating results of financial institutions have been stabilized.
Banking sector	By its assets value the banking sector continues to dominate all sectors in the financial market in the Czech Republic. Foreign shareholders have an overwhelming majority here.
Interest rates	CNB's interest rates have been gradually increasing since the end of April 2005. Repeated increases of rates in 2007 were, inter alia, reasoned by strengthening inflation pressures in the economy of the Czech Republic, accelerating household consumption and impacts of the fiscal reform on the economy of the Czech Republic.
Deposits and loans	The total value of crown deposits in 2007 exceeded CZK 2 billion and total loans amounted to more than CZK 1.5 billion. The increase of deposits and loans was mostly caused by households and non-financial undertakings. The household indebtedness grew by one third in year-on-year comparison.
Building societies	As at the end of 2007 building societies recorded 5.1 million contracts in the savings phase. Notwithstanding the increase of newly concluded building savings contracts the downward trend of the total number of contracts, which started in late 2003, has been retained. The loan area in 2007 recorded a continuing increase in the number of loans and particularly in the value of loans.
Mortgage market	As at the end of 2007 approximately 86 thousand new mortgage contracts were concluded, the agreed principal amount of which exceeded CZK 184 bn. Simultaneously with the value also the average amount of MLs for individual grew. Total value of MLs approximated CZK 420 bn.
Capital market	Despite a slump due to the U.S. mortgage crisis, PX - key Prague Stock Market index - grew annually by more than 14 % and closed at 1 815.1 points. The total trading value of the Prague Stock Market in the last year amounted to CZK 1 525 bn. Since the start of trading in July until the end of the year the Prague Energy Exchange recorded contracts amounting to EUR 1.9 billion.
Collective investments	Investments in unit trusts recorded a year-on-year growth by almost CZK 44 bn to the total amount of CZK 315.2 bn. In general, investors showed higher interest in unit trusts registered abroad. These trusts attracted by one half more funds than domestic unit trusts. The number of domestic unit trusts significantly increased to 121 compared to 77 as at the end of 2006. A new category of real estate unit funds entered the market in 2007.



Insurance companies

The insurance sector has not been burdened with increased insurance claims based on extreme climatic occurrences. After temporary stagnation the insurance market resumed its dynamics in 2007, mostly in life assurance. Despite acceleration the gross premium/GDP penetration for individuals in the Czech Republic remains low.

Supplementary pension insurance

Pension funds as at 31/12/2007 recorded almost 3.94 million participants. The one-million limit was exceeded by the number of supplementary pension insurance contracts currently receiving contributions from the participants' employers. Private supplementary pension insurance remains only an additional source, because the low level of average monthly contribution does not create sufficient savings amount for the pension age.

Government sector

In 2007 operations of the government sector closed with a deficit amounting to CZK 56.1 bn, i.e. 1.6 % of GDP. The government sector debt in 2007 amounted to CZK 1 019.4 bn, i.e. 28.7 % of GDP, which represented a year-on-year drop by 0.7 p.p.

Foreign exchange market

The Czech currency in the second half of the year strengthened considerably and for the entire year it generally appreciated against both key currencies.

Financial market legislation

Intense discussions were held on the EU level in 2007 regarding the project of preparation of a new regime for insurance solvency institutions, the so-called Solvency II. The new Directive on payment services in the internal market is highly important. In mid-2007 a legislative amendment transposing the Directive on capital requirements on credit institution and securities dealers (Basel II) came into effect. By the amendment to the Act on capital market undertakings, adopted by the Parliament on 7 May 2008, the Czech Republic complies with its obligation to transpose the directive on markets in financial instruments (MIFID). The bill constitutes the most significant changes to the capital market business in the last 10 years.

Consumer protection in financial market

In 2007 the Ministry of Finance continued its activities regarding the financial market and consumer protection development. The major point consisted in articulation of a framework consumer protection policy, which describes particular reasons for active interventions from the part of the state, and, first of all, key areas of such interventions, identified as consumer protection pillars.



1. MACROECONOMIC SITUATION

The economy of the Czech Republic in the year 2007 recorded growth rates similar to 2006. Its gross domestic product (GDP) in real terms increased by 6.5 %. The GDP expenditure structure in 2007 remained almost the same as in 2006. In both years the main source of the GDP growth derived from domestic demand, driven by household expenditures on final consumption and by the gross fixed capital formation. The contribution of foreign trade was relatively low and in both years amounted approximately to 1 p.p.

Table 1.1: GDP growth rates¹

(annual, %)	2002	2003	2004	2005	2006	2007
Czech Republic	1.9	3.6	4.5	6.4	6.4	6.5
EU-27	1.2	1.3	2.5	1.9	3.0	2.9
Eurozone	0.9	0.8	2.1	1.6	2.7	2.6
Japan	0.3	1.4	2.7	1.9	2.4	2.1
U.S.A.²	1.6	2.5	3.6	3.1	2.9	2.2

Source: Eurostat

The Czech economy managed to maintain its low-inflation environment in 2007. This development was substantially influenced by the high level of competition. The average annual inflation rate amounted to 2.8 % (CPI based), when the year-on-year inflation in the 4th quarter rose to 4.8 % in response to the extreme increase in world commodities prices (mostly food commodities). In addition to food and energy prices the CPI was influenced also by administrative effects. In a long-term view the consumer demand is driven mostly by expenses on housing.

Table 1.2: Macroeconomic indicators of the Czech economy

	2004	2005	2006	2007
GDP growth (% , constant prices)	4.5	6.4	6.4	6.5
Household consumption (change, %, constant prices)	2.9	2.3	5.5	5.6
Government consumption (change, %, constant prices)	-3.5	2.2	0.0	0.9
Gross fixed capital formation (change, %, constant prices)	3.9	2.3	5.5	6.1
Inflation (CPI, average for period, %)	2.8	1.9	2.5	2.8
Unemployment rate (MLSA, average for period, %)	9.2	9.0	8.1	6.6
Current account balance for GDP (% , current prices)	-5.2	-1.6	-3.1	-2.5
Balance of trade for GDP (% , current prices)	-0.5	2.0	2.0	3.3

Source: CZSO, CNB, MLSA

The labour market development has been positive. The national unemployment rate peaked in 1Q 2004 at the level of 9.6 % and since then it has been rapidly decreasing due to the economic growth. In 2007 the rate dropped to 6.6 %, which was by 1.5 p.p. lower than a year ago. At the same time this value represented the minimum rate in almost the last 10 years. Besides cyclic effects improvements probably apply also to structural characteristics. The dynamic growth of labour productivity had continued.

¹ Data published as at 7.3.2008

² Adjusted for seasonal effects.



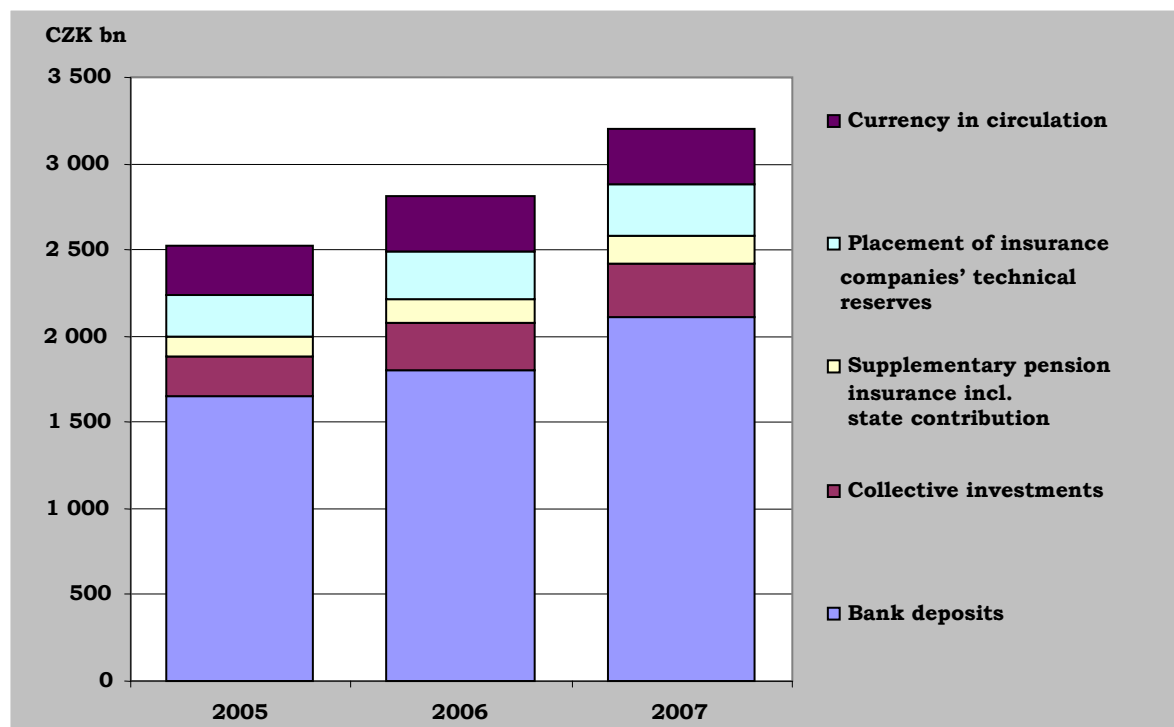
The external economic imbalance expressed by the current account balance to GDP ratio has been kept within acceptable limits. In 2007 the ratio amounted to -2.5 % and in year-on-year terms it improved by 0.6 p.p. The main source of the current account deficit consists particularly in the outflow of revenues from direct foreign investments. The trade balance has been improving continuously and the surplus thereof reached 3.3 % of GDP in 2007.



2. FUNDS FOR USE IN THE FINANCIAL MARKET

As at the end of 2007 financial institutions in the Czech market could theoretically use for financial market operations the amount of almost CZK 3.2 trillion³, which represented a year-on-year growth by 13.89 %. The growth rate increased approximately by 2.8 p.p. compared to the previous year. The following graph and table present a comparison of the structural development of financial sources by selected segments.

Graph 2.1: Funds for use in the financial market



Source: MoF, CNB, AKAT

The year-on-year comparison of money for use in the financial market implies that the highest growth rate in 2007 was recorded by the value of funds in the supplementary pension insurance (19.19 %) and in bank accounts (16.74 %). These play a dominant role in accumulation of funds and recorded also the highest rate acceleration (6.7 p.p.) compared to 2006. However, in other segments we could see certain slowdown in the former rates, most of all for building savings schemes and collective investments, where the rate dropped by one quarter / one fifth.

In terms of value of invested funds the absolutely highest year-on-year growth was recorded by bank deposits, which exceeded CZK 302 bn. By the end of the year the total value thereof for the first time topped the CZK 2 billion limit, even in a situation when yields from deposits hardly offset inflation and therefore deposits did not appreciate in real terms. However, in context of slumps of shares and bonds in capital markets bank deposits constitute a safe haven for available funds, particularly for domestic investors, whose investments abroad are hampered also by the continuously appreciating Czech crown, i.e. the reference currency. This reflects also in offers of certain banks with above-average

³ Funds available in the financial market for the purposes hereof are calculated as a sum of money in bank deposits, collective investment funds, supplementary pension insurance, placement of technical reserves of insurance companies and currency in circulation available for use in the financial market. Therefore it is a particular section from the total balance of financial sources formation and use.



interest yields on savings accounts with almost instant liquidity, which can compete even with hitherto highly popular bond and money market unit trusts.

Table 2.1: Funds for use in the financial market⁴

as at 31/12 (CZK bn)	2006	2007	year-on-year change	
			abs.	(%)
Deposits in banks ⁵	1 807.26	2 109.77	302.51	16.74
of which: building savings scheme	359.80	384.80	25.00	6.95
Collective investments ⁶	271.30	315.23	43.94	16.19
Supplementary pension insurance, including state contribution	136.40	162.45	26.05	19.09
Placement of insurance companies' technical reserves	269.71	291.45	21.74	8.06
Currency in circulation	321.50	324.07	2.57	0.80
Total	2 806.17	3 202.97	396.80	14.14

Source: MoF, CNB – ARAD, CNB, AKAT

⁴ Data as at 30.4.2008.

⁵ Including CZK deposits of clients according sectoral classification.

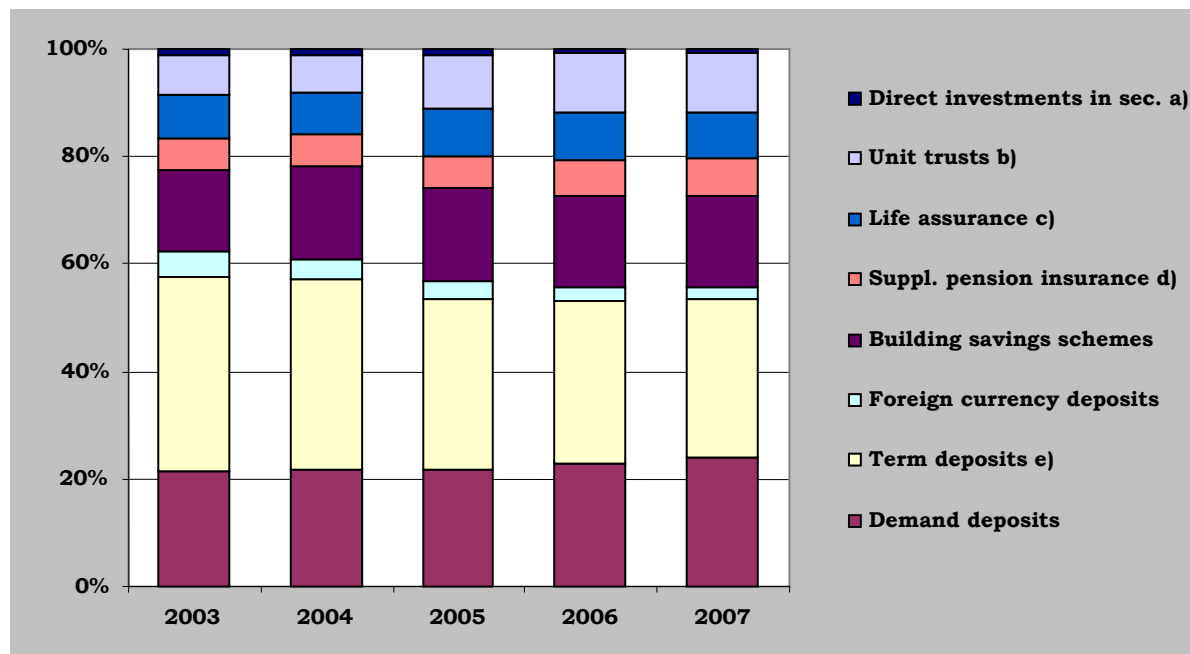
⁶ Including investments in domestic and foreign unit trusts.



3. STRUCTURE OF HOUSEHOLD SAVINGS

Total household savings in year-on-year terms grew approximately by 10 % and reached CZK 2.3 bn. Compared to the preceding year the savings growth rate slowed down slightly by 1.06 p.p. due to loss of dynamics of most elements of household savings.

Graph 3.1: Development of structure of private savings in the Czech Republic⁷



Source: CNB, MoF

In absolute terms the highest growth rates were traditionally recorded by demand and term deposits. The lowest growth rates applied to foreign currency deposits, because households did not opt for this alternative due to the constantly strengthening Czech crown. Although term deposits still constitute the biggest portion of the total household savings, their share has been steadily decreasing compared to other investment forms.

The highest year-on-year percentage increase was shown by supplementary pension insurance and demand deposits. The growth of demand deposits may be partially reasoned by increasing popularity of savings accounts, yields from which reached due to competition at least the level of term deposits upon much higher liquidity.

We may suppose that in the years to come households will increasingly invest their available funds in higher-yield financial instruments offered in the Czech financial market and they will not leave their money in current accounts with minimum appreciation rates.

⁷ N.B.:

- Qualified estimate by MoF.
- Value of assets in open-ended unit trusts, investment funds and since mid-2002 of foreign funds – for individuals at the estimate amount of 85 % of total funds' assets.
- According to value of insurance companies' technical reserves.
- Saved until now including state contributions, excluding pension disbursements and lump-sum settlements.
- After re-classification of deposits of certain building societies made by CNB for the period 12/2001 and 01/2002.



4. FINANCIAL MARKET ENTITIES

Numbers of entities in the banking and insurance sector have not changed materially in year-on-year terms. Clients' needs are comprehensively met particularly in scope of holding structures of big financial groups via the so-called products cross-selling, i.e. sale of sectorally different financial products from a single point (financial institution), where clients may order banking, insurance and investment products, as well as services provided by developers or leasing companies. In institutional terms the financial sector in Czech Republic seems sufficiently saturated in most market segments.

In the banking and insurance sector several minor entities fully owned by foreign parties showed an interest for transformation of their legal form from a subsidiary to a branch, for example in order to reduce administrative intensiveness of processes with respect to external requirements.

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

as at 31/12	2002	2003	2004	2005	2006	2007
Banks	37	35	35	36	37	37
of which: foreign banks branches	8	8	9	12	13	14
of which: building societies	6	6	6	6	6	6
Cooperative banks	25	31	33	20	20	19
Securities dealers	81	71	58	51	58	44
Investment funds	8	4	2	0	0	9
Investment companies	16	16	9	9	13	20
Open-ended unit trusts	92	66	62	65	77	121
of which: special OUT	0	0	0	41	51	83
 standard OUT	0	0	0	24	26	38
Foreign funds /sub-funds	651	723	911	1 038	1 282	1 499
of which: based on common European licence	0	0	0	1 025	1 271	1 479
of which: special funds	0	0	0	13	11	20
Investment intermediaries (000's)	0.10	3.10	5.70	8.40	10.60	13.37
Pension funds	13	12	11	11	11	11
Insurance companies	42	42	40	45	49	52
of which: branches of foreign insurance companies	7	8	7	12	16	18
Insurance intermediaries (000's)⁸	44.50	43.30	43.60	35.30	50.10	67.50

Source: CNB

Competition in the Czech financial market was in the last year supported by an increase of the number of entities operating on the territory of the Czech Republic under the so-called single European passport. As at the end of 2007 the following numbers of entities were allowed to provide their services under this regime:

⁸ Qualified estimate until 2004.



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

As at 31/12/2007	Banks	Insurance companies	Unit trusts	Investment companies	Non-banking providers of investment services
Total	206	478	1 479	37	518

Source: CNB

Operating results of financial institutions are stabilized, key profits volume derives from the banking sector, which dominates significantly also by the share of its assets. Lower year-on-year increments were recorded in other sectors.

As the preceding Report of Financial Market Developments already stated, even a short time ago banks and other financial institutions were supposed to force most clients out of their branches by their fee policies and to persuade the clients about benefits resulting from remote control of bank accounts and other services. Also in the Czech Republic this assumption failed, e-banking and similar services are appreciated only by a specific group of clients and are used mostly for simple products. Therefore many banks published their intentions to enlarge their branch networks continuously in 2007. The branch networks growth relates also to development of commercial banking activities, which require direct contacts with clients, and to the cross-selling options within individual banking groups.

Practice experience in 2007 has shown that every retail sale business requires establishment of a sufficiently rational branch network. All sectors recorded at least mild year-on-year increases in average headcount numbers. Capital adequacy requirements seem sufficiently met in the financial sector. The decrease in equity of pension funds (by CZK 4.18 bn) was influenced by a change in the position in the valuation differences accounts (CZK -5.5 bn).

Table 4.3: Economic results of financial institutions (year-on-year comparison)

		Banking financial institutions	Non-banking financial institutions ⁹	Insurance companies	Pension funds	Financial leasing companies	Investment companies ¹⁰
Average headcount¹¹	as at 31/12/2006	35 821	10 865	14 159	447	2 644	162
	as at 31/12/2007	36 637	12 099	14 210	449	2 735	208
	change (%)	2.28	11.36	0.36	0.45	3.44	28.40
Profit / loss before tax (CZK bn)	as at 31/12/2006	49.17	24.96	17.71	4.14	6.02	5.17
	as at 31/12/2007	59.26	25.05	16.19	4.84	4.75	3.27
	change (%)	20.51	0.36	-8.60	17.07	-21.23	-36.70
Equity (CZK bn)¹²	as at 31/12/2006	71.33	263.84	57.71	8.10	26.92	157.51
	as at 31/12/2007	73.87	310.18	56.94	3.92	35.04	176.73
	change (%)	3.56	17.56	-1.33	-51.55	30.15	12.20

Source: CZSO

⁹ Institutions according to methodology "OKEČ" 652 and 67.

¹⁰ Investment companies and unit trusts and investment funds managed by those companies.

¹¹ Average headcount (full-time equivalent), individuals, for the year ending on the stated date.

¹² Registered capital in banking financial institutions.



4.1. Business sector

Funds for further development of non-financial companies were again provided by bank loans. However, also the value of bonds issued increased, on the other hand, the share of bonds in total indebtedness of companies with more than 250 employees dropped (from 17.8 % to 16.7 %) as a result of higher dynamics of bank loans.

The Prague Stock Exchange did not record more IPOs than in the previous years, which means that companies in 2007 still did not consider the capital market as a funding source equal to bank loans. Companies do not use the capital market for funding of their further development probably also due to lack of experience with this funding source. They have many years of experience from the bank loans area and because of the relative accessibility of such loans companies do not have many reasons to seek other sources.

Table 4.4: Financial resources of companies with not less than 250 employees¹³

as at 31/12 (CZK bn)		2006	2007
Money and bank accounts		199.5	209.0
Credits and loans (received)	short-term	150.4	193.0
	long-term	207.7	216.3
	total	358.2	409.3
Bonds incl. bills of exchange (liabilities)	short-term	10.2	12.8
	long-term	67.0	69.4
	total	77.2	82.2

Source: CZSO

Due to the change of reporting made by CZSO in the last year only certain financial indicators are available for 2007 (see table 4.5). Data on profits and losses of companies should be available from the year 2009.

Table 4.5: Financial indicators of companies with not less than 250 employees

as at 31/12	2006	2007	change	
			abs.	(%)
Number of active entities	1 470	1 512	42	2.86
Number of employees (average, individuals)	1 174 677	1 213 415	38 738	3.30
ASSETS = LIABILITIES total (CZK bn)	3 453.1	3 690.9	237.8	6.89
Equity (CZK bn)	1 896.2	1 978.3	82.1	4.33

Source: CZSO

4.2. Banking sector

By its assets value equal to 88 % of GDP the banking sector fully dominates all financial market sectors in the Czech Republic. Majority of the banking sector is controlled by foreign shareholders. Approximately 98 % of the total balance sum of the sector is held by foreign owners, most of them based in the EU (more than 90 %). Every big bank in the Czech market belongs to a banking group established in the EU.

¹³ The stated data include any and all credits, loans, bonds and bills of exchange, not only the newly acquired or issued.



One of the most discussed issues in the Czech banking market during the second half of 2004 referred to commencement of business operations of a new entity, BRE Bank. The bank started to operate under the single banking licence (European passport) under the name mBank since 1/11/2007. In the Polish market BRE Bank, S. A. has existed for more than 20 years and the mBank itself for seven years. The majority owner of BRE Bank is the German Commerzbank, operating in the Czech Republic since 1999. mBank is designed as an Internet bank with a very scarce branch network, where the core of services should be used by the customers through Internet applications. Operations of mBank in the Czech Republic in the first phase focus on retail clients, subsequently the activity should be spread also to the business sector.

4.2.1. Interest rates development

Interest rates declared by CNB have been gradually increasing since the end of April 2005. In 2007 the total increase thereof amounted to 1 p.p. The currency policy tightening was continuous, CNB increased the rates four times during the reported year¹⁴, every time by 0.25 p.p. As at the end of 2007 the 2T Repo rate reached 3.50 %.¹⁵ Reasons for repeated rate increases in 2007, inter alia, included stronger inflation pressures in the economy of the Czech Republic, accelerating household consumption and impacts on the fiscal reform on the economy of the Czech Republic.

Table 4.6: CNB interest rates

(%)	30/6/2005	31/12/2005	30/6/2006	31/12/2006	30/6/2007	31/12/2007
2T Repo	1.75	2.00	2.00	2.50	2.75	3.50
Discount	0.75	1.00	1.00	1.50	1.75	2.50
Lombard	2.75	3.00	3.00	3.50	3.75	4.50

Source: CNB

The interest rates development is determined at sessions of the Bank Board in CNB. The procedure was changed on 1/1/2008 and the Bank Board will decide on interest rates changes regularly and its sessions will be held only eight times in a year (originally twelve times). Simultaneously the Board will make the votes of its individual members public.

Table 4.7: RPSN (Annual Percentage Rate of Charge) of CZK loans provided by banks in the CR

	I-07	II-07	III-07	IV-07	V-07	VI-07	VII-07	VIII-07	IX-07	X-07	XI-07	XII-07
New deals (%)												
Consumption	13.7	12.7	12.5	12.1	12.3	12.6	12.7	13.1	13.0	13.2	13.6	13.5
Purchase of housing	4.8	4.8	4.7	4.7	4.7	4.9	5.0	5.1	5.2	5.3	5.4	5.5

Source: CNB

Banks responded to CNB rates increases and raised their rates on loans, which subsequently influenced the total annual percentage rate of charge on loans.

4.2.2. Deposits and loans

In year-on-year terms the total volume of CZK deposits in 2007 grew by 14.34 % to CZK 2 109.77 bn and the total volume of loans by 21.38 % to CZK 1 553.70 bn. Also the growth

¹⁴ The rates had been increased gradually in 2007 at sessions in June, July, August and for the last time in November.

¹⁵ CNB increased its 2T repo rate by 0.25 p.p. again in February 2008 to 3,75 %.



rate of deposits and loans increased. Highest shares in the total increase of the deposits volume belonged to households¹⁶ (39 %) and non-financial companies (28 %). In loans the households share amounted to 53 %, non-financial companies took 30 %.

Table 4.8: Distribution of CZK deposits and loans with banks by sectors

as at 31/12 sector ¹⁷	Bank deposits (CZK bn)				Loan beneficiaries (CZK bn)			
	2006	2007	change	change (%)	2006	2007	change	change (%)
Non-financial companies	402.3	485.9	83.6	17.20	516.6	616.6	100.0	16.22
Households	1 113.2	1 231.1	117.9	9.58	529.9	707.0	177.1	25.05
Government institutions	154.3	207.8	53.5	25.73	61.2	51.4	-9.8	-19.07
Financial institutions	79.3	110.3	30.9	28.04	86.7	128.5	41.7	32.49
Other	58.1	74.7	16.7	22.30	27.1	50.2	23.1	45.99
Total	1 807.3	2 109.8	302.5	14.34	1 221.6	1 553.7	332.2	21.38

Source: CNB - ARAD

Besides households, non-financial firms are the second most important sector by their volume of CZK deposits and loans. The increase of deposits in 2007 reached 17.2 %, which represented acceleration by 4 p.p. The deposits increase was caused by the growth of economy. The growth rate of loans volume decreased by more than 3 p.p. compared to the preceding year, however, in absolute terms the value grew by approx. CZK 16 bn.

The volume of households' deposits with banks has been increasing continuously, provided that since 2006 annual growth rates have been around 10 %. Total CZK deposits in 2007 consisted of 45 % of term deposits and 55 % of demand deposits. Within term deposits the biggest share belonged to short-term (65 %) deposits. 91 % of demand deposits as at the end of the reported period consisted of current account and overdraft balances. The increase of deposits was related to the increase of household disposable income and nominal wages.

In the long run the sector of households and non-financial companies has been retaining a dominant position in terms of CZK loans beneficiaries¹⁸. In 2007 the loans volume grew by 25.1 %, notwithstanding the increasing interest rates on loans.¹⁹ Majority of loans provided to households consisted of housing loans (see Chapters 4.2.4 Mortgage market and 4.2.3 Building savings schemes).

Distribution of loans by purpose implies that the highest increase was, as expected, recorded by mortgage loans. On the other hand, the biggest drop (by ca 32 %) referred to investment loans and bridging loans.²⁰ The increase in mortgage loans was caused by continuing saturation of housing needs, deregulation of rent amounts and general development of construction sector, not only the housing one (see Chapter 4.2.4 Mortgage Market).

¹⁶ The households sector in 95 % consists of individuals, the remaining share belong to trades.

¹⁷ Client CZK accounts and loans based on ARAD banking statistics, divided by sectors, include residents and non-residents.

¹⁸ After FX loans inclusion non-financial companies will become bank loans beneficiaries.

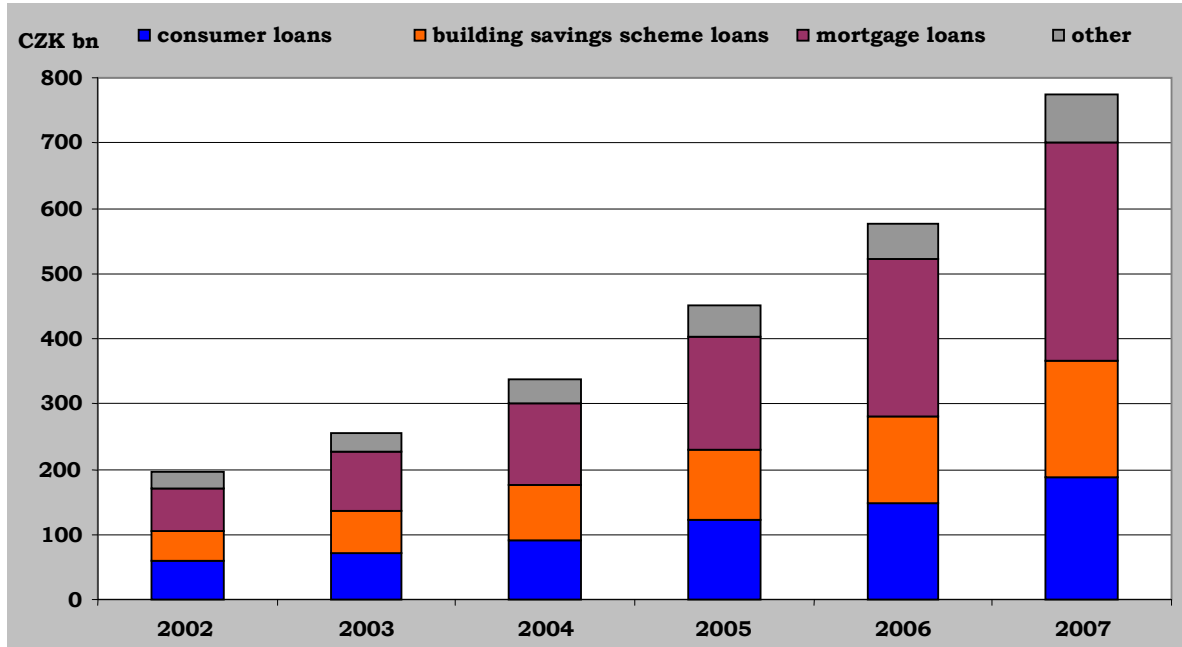
¹⁹ See table 8.1 in Appendix 2.

²⁰ See table 8.2 in Appendix 2.



Indebtedness of households to banks and non-banking financial institutions as at the end of 2007 amounted to CZK 774.18 bn, in year-on-year terms it means a significant increase by ca 34 %. Compared to the preceding year the indebtedness growth rate rose by ca 6 p.p. Prevailing portion (ca 67 %) consisted of housing loans, particularly mortgage loans.

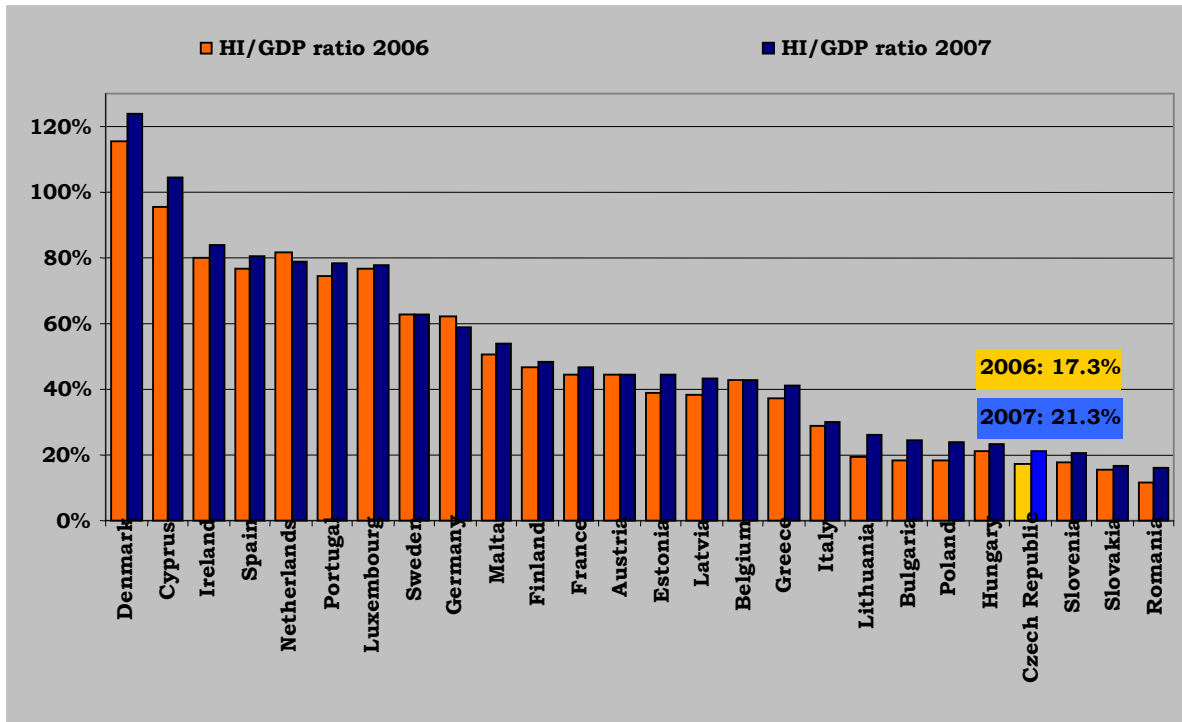
Graph 4.1: Household indebtedness by purpose



Source: CNB - ARAD, ČLFA

In comparison to other EU Member States the Czech Republic belongs to states with the lowest total household indebtedness to GDP ratio, in 2007 reaching less than 22 %.

Graph 4.2: Comparison of household indebtedness in the EU



Source: ECB, Eurostat



4.2.3. Building societies

In 2007 ca 580 thousand new building savings contracts were concluded (increase by 12.3 %) having the total target value (hereinafter referred to as "TV") of CZK 170 bn. The average TV for individuals reached CZK 285 thousand. Most new contracts were traditionally concluded in the last quarter of the year – ca 197 thousand (ca 34 %).²¹ The high growth of the number of new contracts as at the end of 2007 was driven not only by the usual annual promotion campaign of building societies but also by the public discussion of possible changes in the state support to building savings schemes in scope of the public finance reform.

On the other hand, in year-on-year terms the number of contracts with TV increases dropped. In 2007 TV increased for 282 thousand contracts (drop by 28 thousand). However, in comparison to 2006, when TV increased by CZK 59 bn, in 2007 the lower number of contracts brought an increase in TV by CZK 71 bn.

As at the end of 2007 the total number on contracts in the savings phase amounted to 5.1 million. In year-on-year terms it meant a decrease by 165 thousand contracts. Despite the high increase in the number of newly concluded building savings contracts the total number of contracts continues its downward trend since the end of 2003, when the number reached the record 6.3 million.²²

Since then the contracts portfolio structure has been changing gradually. Every year the ratio of the so-called "new" contracts ²³ to the total amount of building savings contracts increases. In 2007 this ratio amounted to 31.1 %, which represented a year-on-year increase by ca 10 p.p. Due to the annual growth of the share of "new" contracts the state support amount decreases annually. In 2007 the total paid state contributions on building savings schemes amounted to CZK 15 bn, by CZK 800 million less than in 2006. We may anticipate the state support to decrease also in several next years, depending on the downward trend of the share of "old" contracts ²⁴ in the total number of building savings contracts.

The area of loans in 2007 recorded a continued growth of the total number of loans, to 943 thousand, however, this number represents the lowest year-on-year increase not only in relative (increase by 4.7 %) but also in absolute terms (increase by 42 thousand loans). Nevertheless, the loans volume grew by 32.37 % and the growth rate by 7 p.p. unlike the mortgage loans volume, where the rate has been decreasing steadily. The average loan amount increased by 26.4 % and exceeded CZK 190 thousand.

The total volume of loans as at 31/12/2007 reached the value of ca CZK 179.3 bn, which represents a year-on-year increase by record ca CZK 44 bn. This had a positive impact also on the loans volume to saved amount ratio, which reached 46.6 %, with a year-on-year increase by 9 p.p. compared to 2006.

²¹ See table 8.3 in Appendix 2.

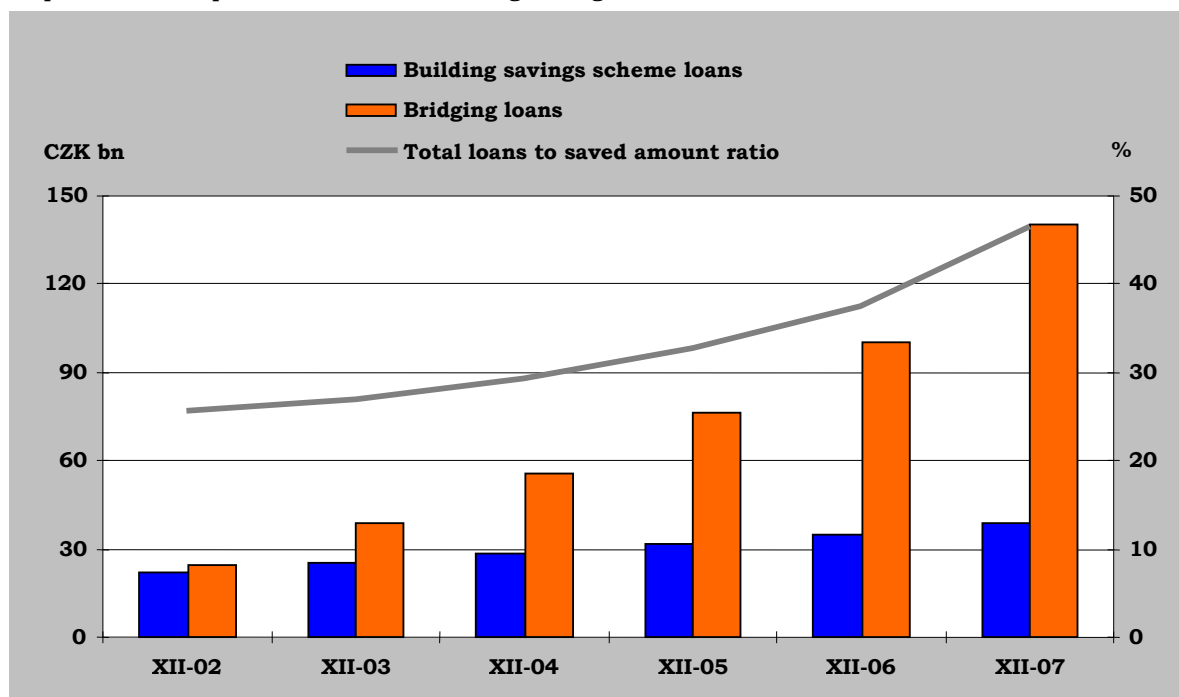
²² On 1.1.2004 the amendment to Act no. 96/1993 Coll., on building savings schemes and state support for building savings schemes, took effect, which, inter alia, reduced the state support from the maximum CZK 4 500 ("old" contracts) to the new lower amount of CZK 3 000 ("new" contracts).

²³ Contracts concluded after 1.1.2004.

²⁴ Contracts concluded until 31/12/2003.



Graph 4.3: Development of loans in building savings schemes sector



Source: MoF

Since 2002 the structure of loans has been changing. Although the building savings schemes loans have been on the rise, they are far from the growth dynamics of bridging loans, as illustrated by the graph above.

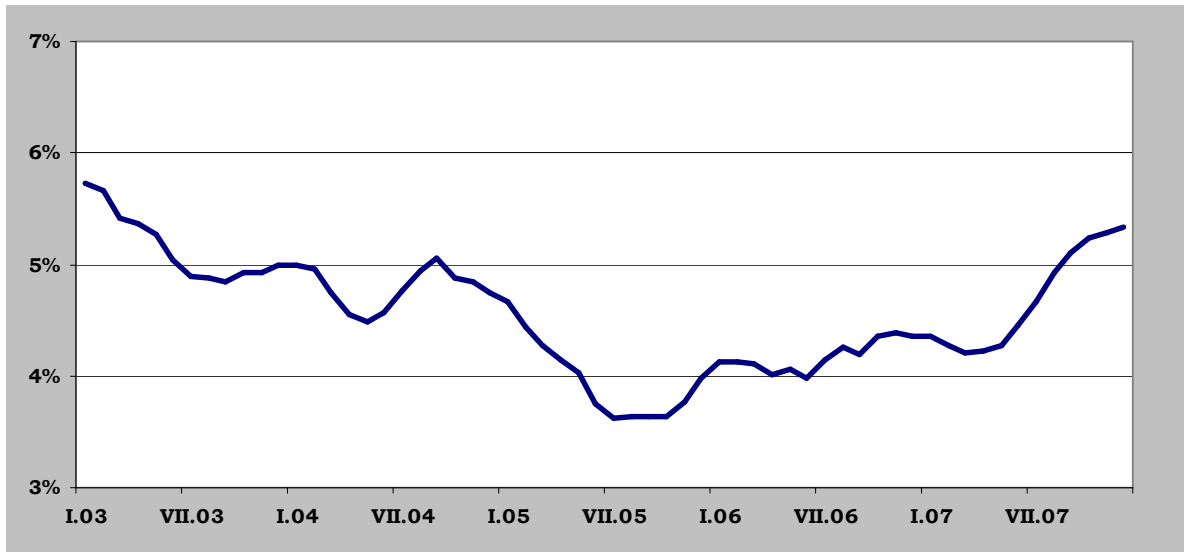
4.2.4. Mortgage market

Mortgage loans (hereinafter referred to as “MLs“) have become an integral part of housing development in the Czech Republic. Already in the end of 2003 the mortgage loans value exceeded the value of loans under building savings schemes and the importance of mortgage loans has continued to grow until now.

Due to the CNB rates increase in 2007 MLs with one year fixation decreased in favour of MLs with longer fixation terms. Within the most common fixations (annual, three- and five-year) the interest rates had gradually approximated and closed at around 5.4 % in the end of the year.



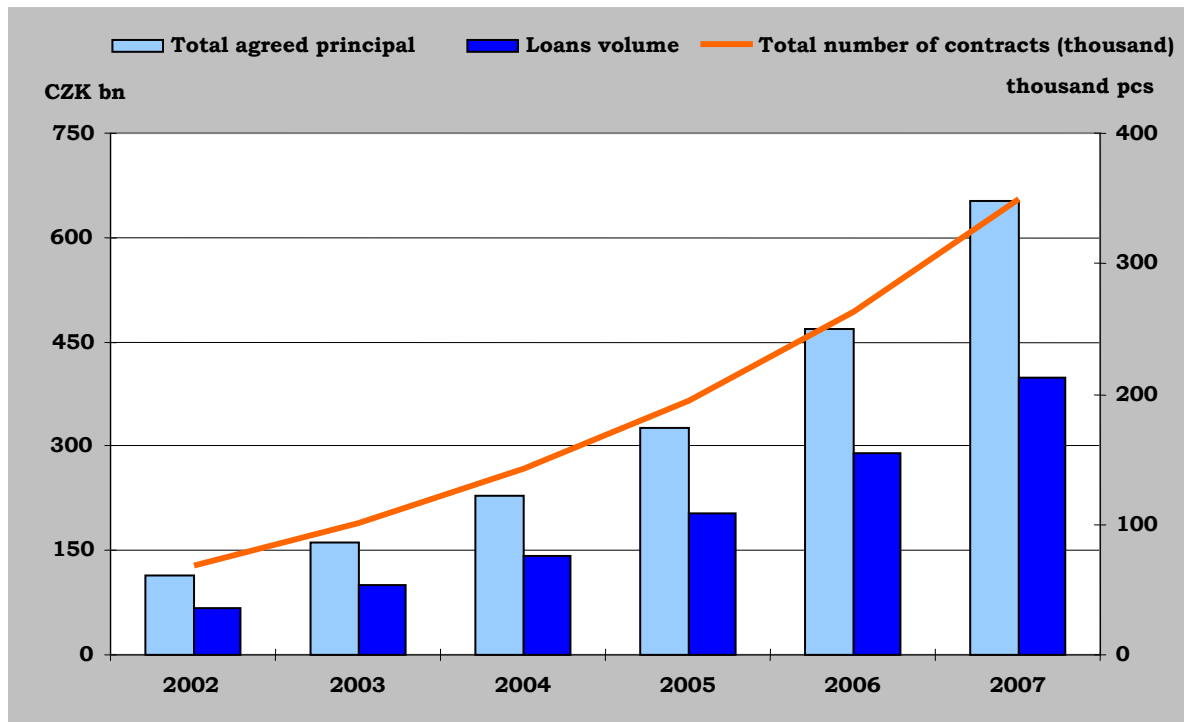
Graph 4.4: Mortgage index (hypoindex) development²⁵



Source: Fincentrum

Simultaneously with the total value also the average value per ML for individuals increased, as at the end of the reported period the average value amounted to CZK 1 708 104 (CZK 1 494 173 in 2006).

Graph 4.5: Aggregate mortgage market indicators



Source: MRD, CNB - ARAD

²⁵ The FINCENTRUM HYPOINDEX indicator is a weighted average interest rate applied to new mortgage loans to individuals in the given calendar month. The graph above depicts time series of this interest rate.



As at the end of 2007 ca 86 thousand mortgage contracts were concluded, with the agreed principal amount of CZK 184.05 bn. Since the launch of MLs in our market almost 350 thousand mortgage contract with the total agreed principal amount of CZK 652.3 bn. have been concluded. By the number of concluded contracts and agreed principal amount households rank definitely first (77 % of the total principal), followed by business entities (22.5% of the total principal) and municipalities. The total value of MLs approximates CZK 420 bn. For the year 2008 we may anticipate the mortgage market to grow, although not so strongly as in the preceding years, due to several reasons:

- inflation in 2007,
- increasing concerns about ML interest rates increase,
- increase of VAT on construction works from 5 % to 9 % since 1/1/2008,
- tax burden on mortgage bonds (MB),
- in connection to the single personal income tax rate the absolute amount of tax-deductible interest on housing loans will decrease,
- drop in applications for building permits by 18.3 % as at the end of 2007, provided that the building permits for residential buildings decreased by 12.4 % in year-on-year terms.

The demand for housing remains high, also due to housing situation of large age-groups and concerns about the growing property prices. Moreover, some banks offering ML have created “money reserves” when in the second half of 2007 they issued more mortgage bonds exempt from taxes at that time. Another important moment in 2008 is that approximately 150 thousand clients will await ML refixations and some of them will use refinancing options.

Table 4.9: Mortgage loans balances (ML)

As at 31/12		2005	2006	2007	Year-on-year change	
					abs.	(%)
Individuals	total (thousand pieces)	188.30	255.65	338.99	83.34	32.60
	total agreed principal (CZK bn)	226.46	327.30	469.59	142.29	43.47
Business entities	total (thousand pieces)	5.59	7.40	9.78	2.38	32.16
	total agreed principal (CZK bn)	93.49	132.90	174.39	41.49	31.22
Municipalities	total (thousand pieces)	0.77	0.81	0.84	0.03	3.70
	total agreed principal (CZK bn)	7.63	8.04	8.32	0.28	3.48
Total	total (thousand pieces)	194.66	263.85	349.61	85.76	32.50
	total agreed principal (CZK bn)	327.59	468.25	652.30	184.05	39.31
Loans value (CZK bn)		202.89	288.70	398.24	109.54	37.94

Source: MRD, CNB - ARAD

4.3. Capital market

The favourable macroeconomic position of the Czech Republic in the last year affected also capital markets. Majority of share prices increased. 2 new companies entered the Stock Exchange. The stock exchange trade value grew, including new markets of financial derivatives.

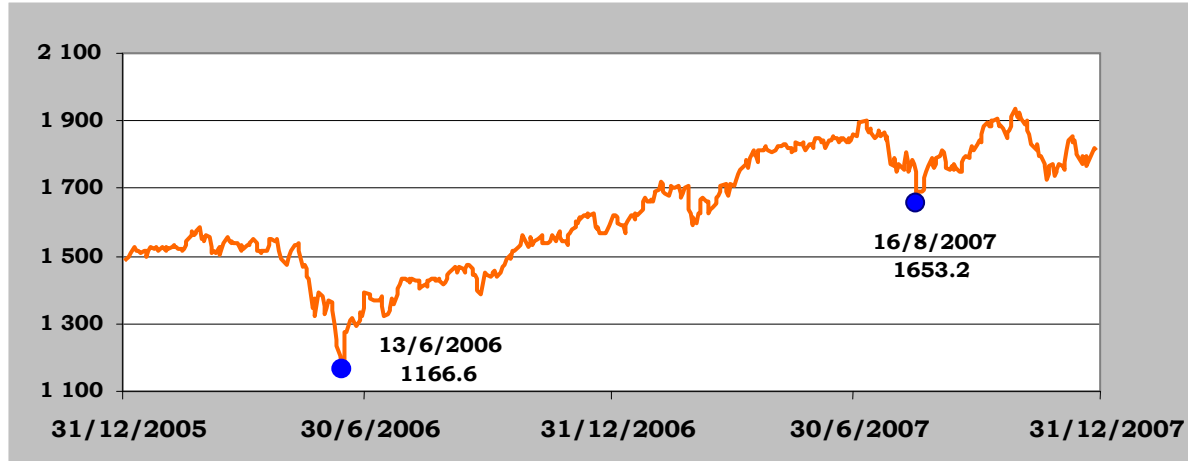
4.3.1. Regulated markets

The key Prague Stock Exchange index (PX) recorded an annual growth by 14.24 % and closed at 1 815.1 point, despite the abrupt slump due to the U.S. mortgage crisis. Since 16/8/2007, when the slump reached the bottom 1 653.2 points, PSE has grown by the end



of the year by 9.79 %. The Czech economy did not slow down, which had a positive impact on share prices. The slump in August was caused mostly by psychological factors, panic and sales by foreign investors.

Graph 4.6: PX index development



Source: PSE

The PX index grew for already six years in a row. The last value loss was recorded in 2001 upon terrorist attacks in New York. The period of regular price increases in the order of tens of per cent, seen in the preceding years, has probably finished. Investors may achieve similar revenues only in periods following major market corrections, as for example in mid-August 2007.

Table 4.10: PX index development

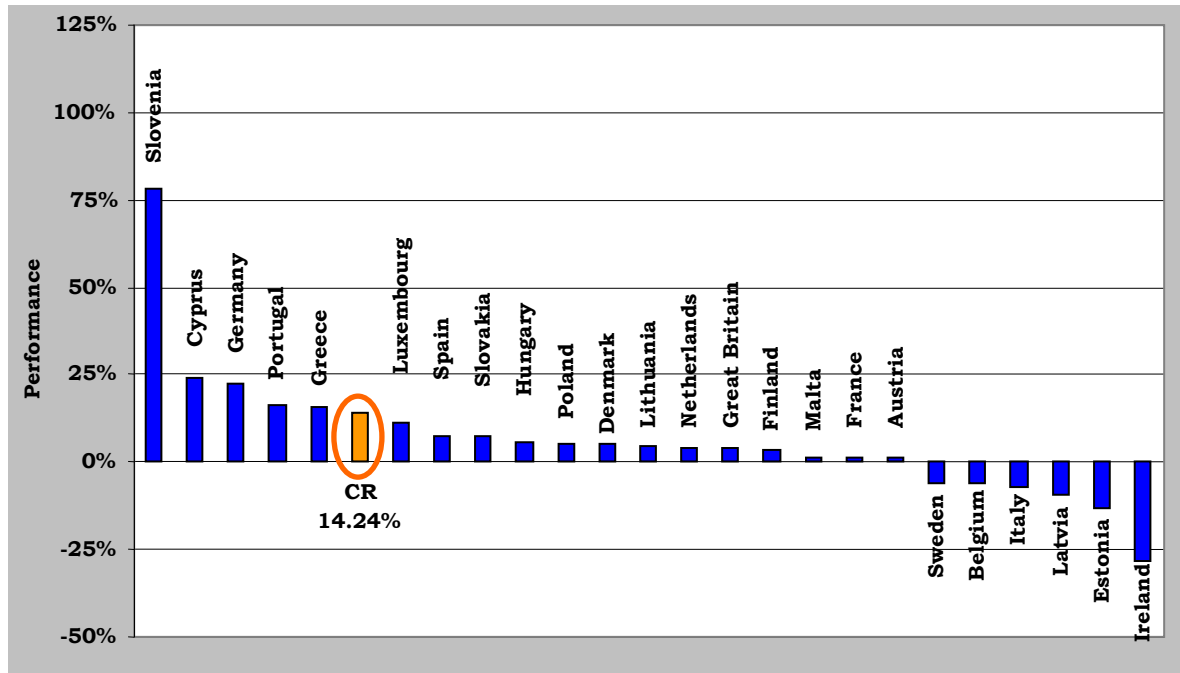
Year	2001	2002	2003	2004	2005	2006	2007
as at 31/12	394.6	460.7	659.1	1 032.0	1 473.0	1 588.9	1 815.1
Change (%)	-17.53	16.75	43.06	56.58	42.73	7.87	14.24

Source: PSE

Although the PSE had not grown so strongly as before, the Prague Stock Exchange ranked 6th among the main stock exchanges in the EU-25. Performance of other stock exchanges in 2007 recorded similar slumps due to the U.S. mortgage crisis. Moreover, the number of stock exchanges with index losses significantly increased in the last year. In the period 2005 and 2006 this happened only in a single case, in the last year index losses were recorded by 6 stock exchanges.



Graph 4.7: Performance of significant stock exchange indexes in EU Member States in 2007²⁶



Source: FESE

The total trade value at the Prague Stock Exchange in the last year increased by 5.6 % to CZK 1 525 bn, which is only slightly less than in the record year 2005. The share of bonds continued to decline. Therefore the general growth resulted from the significant increase in shares trading, by almost 20 %. Derivatives have had only marginal importance so far.

The trade value of RM-S has almost doubled to CZK 7.7 bn. New titles and possibility of trading in certain foreign issues attracted new investors to this off-exchange market.

Table 4.11: Trade value

Annual (CZK bn)		2004	2005	2006	2007	Year-on-year change (%)	
PSE	Shares and units	479.7	1 041.2	848.9	1 013.0	19.3	
	Bonds	692.5	533.2	598.9	508.9	-15.0	
	Derivatives	Futures	0.0	0.0	0.0	1.9	-
		Certificates	0.0	0.0	0.0	1.2	-
		Warrants	0.0	0.0	0.0	0.0	-
		Total	0.0	0.0	0.0	3.1	-
Total	1 172.1	1 574.4	1 447.9	1 525.0	5.3		
RM-S	4.9	6.6	3.9	7.7	95.0		
Total	1 177.0	1 581.0	1 451.8	1 532.6	5.6		

Source: PSE, RM-S

²⁶ Belgium-BEL 20, Czech Republic-PX, Denmark-OMXC 20, Estonia-OMXT, Finland-OMXH 25, France-CAC 40, Ireland-ISEQ@20, Italy-MIB, Cyprus-FTSE/CySE 20, Lithuania-OMXV, Latvia-OMXR, Luxembourg-LuxX, Hungary-BUX, Malta-MSE, Germany-DAX, Netherlands-AEX, Poland-WIG 20, Portugal-PSI 20, Austria-ATX, Greece-FTSE/ATHEX 20, Slovakia-SAX, Slovenia-SBI 20, Spain-IBEX-35, Sweden-OMXS 30, United Kingdom-FTSE 100. The graph does not include stock exchanges from Romania and Bulgaria.



Compared to 2006 the number of issues at PSE grew considerably, mostly due to derivatives, as at the end of 2007 the Prague Stock Exchange registered 47 derivatives (9 in the preceding year). Also numerous minor bond issues appeared to be traded in the free market. Shares of 2 companies entered trading in the main SPAD segment in the second half of 2007. Firstly, on 24/9/2007 trading in shares of AAA began. In early December (6/12/) investors could buy shares of VGP for the first time.²⁷ However, 2 titles have been withdrawn from the market,²⁸ therefore the total number of issues has not changed. Both titles had been traded in the secondary market, which merged with the main one on 1/7/2007.

Table 4.12: Number of registered issues²⁹

as of 31/12		2003	2004	2005	2006	2007
Shares	Main market	5	6	8	10	21
	Secondary market	34	29	19	11	-
	Free market	26	20	12	11	11
	Total	65	55	39	32	32
Bonds	Main market	27	24	27	28	41
	Secondary market	20	20	15	15	-
	Free market	34	35	54	67	91
	Total	81	79	96	110	132
Derivatives and other products	Futures	-	-	-	2	6
	Investment certificates	-	-	-	7	39
	Warrants	-	-	-	0	2
	Total	0	0	0	9	47
Total		146	134	135	151	211

Source: PSE

4.3.2. Energy exchange

On 5/4/2007 PSE founded the company called Energetická burza Praha (Prague Energy Exchange, hereinafter referred to as "EBP"). At its name tells, the company focuses on trading in electric energy supply contracts. Since July, when the trading was launched, until the end of the year 1 822 contracts were concluded, totalling to EUR 1.9 billion (ca CZK 52 bn). By the trade value this exchange definitely overtook the derivative market of PSE. EBP trades in monthly, quarterly and annual term contracts, provided that prices for the year 2008 are fixed for wholesale purchasers at EUR 50.14 /MWh. The price will become floating only since 2009, particularly due to concerns about extreme price leaps in the first trading year of EBP.

4.3.3. Investment firms

The securities dealers sector indicators are dominated by either banking or non-banking IFs. Banking IFs dispose of higher clients' assets than the non-banking ones and they have much more clients, however, only 14 % of them are active. On the other hand, non-banking

²⁷ Since 5.2.2008 shares of Austrian insurance concern Vienna Insurance Group (VIG) have been traded at PSE. It is the first dually traded insurance company at PSE. On 25 March 2008 VIG shares became constituents of the Prague Stock exchange, PX.

²⁸ Shares of SPOLCHEMIE, which were transformed from book-registered to certificated shares, and shares of Česká zbrojovka due to assignment of shares of all minor shareholders in the company to the main shareholder.

²⁹ As at 1.7.2007 the main and the secondary market merged.



IFs dispose of severalfold higher managed assets and more than 43 % of their clients are active. Investment companies focused on assets management do not play any significant role compared to IFs.

Table 4.13: Selected indicators of IF sector in 2007³⁰

(Excl. derivatives, CZK bn)	IF³¹ total	Banking IF	Non-banking IF	Investment companies³²
Total number of licensed entities	64	24	34	6
Total transactions value³³	318.58	258.74	57.64	2.21
of which: IF's own account IF	201.09	180.85	20.23	0.00
management	11.22	0.63	8.39	2.20
procurement	106.28	77.25	29.02	0.01
Value of managed funds	400.71	39.93	298.01	62.76
Value of clients' assets	1 998.97	1 468.38	393.08	137.51
Number of clients (according to contracts)	1 319 858	1 244 177	74 752	929
of which: active clients³⁴	206 666	173 497	32 247	922

Source: CNB

Among individual financial market instruments shares, bonds and money market instrument prevail in assets and trading volumes.

Asset management³⁵ in 2007 recorded a year-on-year increase in managed assets by 13.56 % to CZK 715.76 bn from preceding CZK 630.28 bn. The 5 largest financial groups manage 86 % of funds.

³⁰ Because the derivatives contracts value is available only at the underlying asset value, derivatives are not included in the table.

³¹ Data include also branches of foreign IFs.

³² Investment companies managing customer assets.

³³ All trades (purchase and sale) concluded at PSE, RM-S, foreign markets and direct trading; accumulated for shares, unit certificates and bonds; average per daily base excl. derivatives trading.

³⁴ An active customer is a customer, to which a IF has provided an investment service during the last 6 months.

³⁵ In this section managed assets include not only assets managed by IFs but also assets in collective investment funds, specifically discussed in Chapter 4.3.4.



Table 4.14: Financial groups by value of managed assets

Manager - financial group	Value of managed assets (CZK bn)
ČSOB (Group)	164.43
Česká spořitelna (Group)	154.02
PPF Asset Management + ČP Invest	145.69
ING (Group)	85.80
Komerční banka (Group)	69.18
AXA investiční společnost	36.81
UniCredit Bank, a.s. + Pioneer Investments	16.97
CREDIT SUISSE ASSET MANAGEMENT inv. spol.	12.97
Conseq Investment Management	12.44
Raiffeisenbank + eBanka	7.05
Other	10.40
Total	715.76

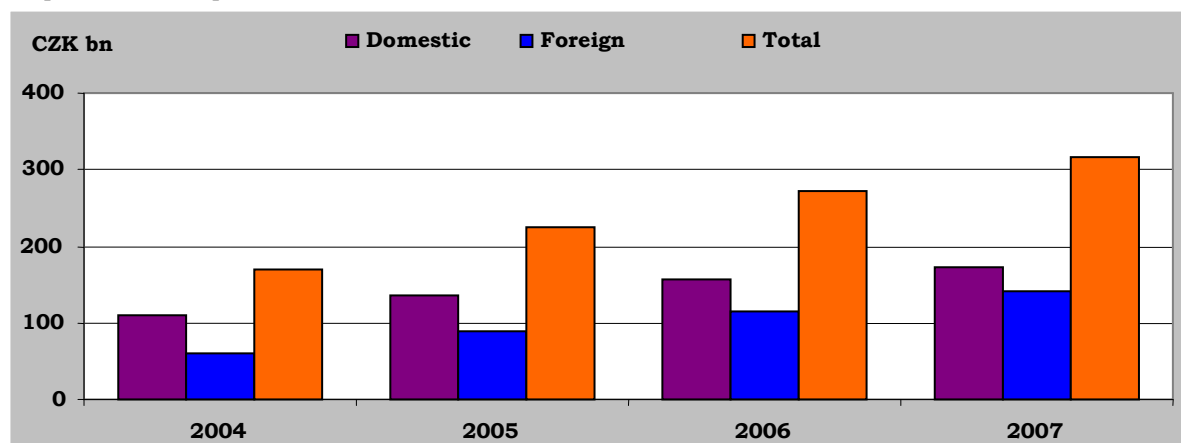
Source: AKAT

Entities with assets managed by IFs are dominated by institutions (53 % of assets), unit trusts and funds constitute 44 % and individuals 3 %.³⁶ These shares have not changed much in year-on-year comparison. The share of institutions as at the end of 2006 reached 54 %, trusts and funds 43 %, the remaining 3 % belonged to individuals.

4.3.4. Collective investments

The year 2007 was another year of an increasing interest in investments through collective investment products. The volume of investments in unit trusts recorded a year-on-year increase by CZK 43.93 bn to the total CZK 315.2 bn. However, this growth did not exceed the increase from 2006 (CZK 46.37 bn). In general, higher interest related to funds registered abroad. These trusts attracted by one half more funds than domestic unit trusts.

Graph 4.8: Development of investments in unit trusts



Source: AKAT

³⁶ Source: AKAT



The number of domestic unit trusts increased to 121 by the end of 2007. A new category of real estate funds established in the market in 2007. In course of 2007 6 new investment companies and 7 investment funds were awarded trading licences. The number of licences for qualified investors funds increased from mere 2 as the end of 2006 to 21 at the end of 2007.

The structure of the funds' offer also very clearly reflects the inflow of investments into these funds, the highest interest being shown in guaranteed funds, shares funds and funds of funds. These types recorded year-on-year increases in sales by tens of per cent. The money market unit funds category has shown certain stagnation, because on one hand revenues from these funds are too low (particularly compared to the increasing inflation) and on the other hand this entire category of funds must face dynamically growing competition of other products - savings accounts. These benefit from their transparency, comprehensibility of the directly offered yield - interest rate - and simple administration. Obviously, should there be any revision of tax terms in future (e.g. the six-month tax test for individuals), the first victim of popularity decline among investors would be the money market funds.

The only category of funds, which recorded an outflow of funds, was the category of bond funds. The decline of this category has continued for two years in a row and the interest rates increase in early 2008 has not indicated any reversion of this trend so far. On the other hand, this could give a certain momentum to the money market funds, which still operate as a safe haven and may positively respond to the interest rates increase due to their short duration portfolios. The negative development of bond funds, which has continued for two years already, provides one of reasons for the interest in secured funds.

The highest increase has been recorded by domestic secured funds, whose net assets have almost doubled in 12 months. This result has its internal logic because conservative clients, who prefer secured funds, intend to evade currency risk upon the strengthening exchange rate of the Czech crown. Therefore the solution lies in funds denominated in domestic currency.

Table 4.15: Assets in individual types of unit trusts by domicile

as at 31/12 (CZK bn)	2006			2007			year-on-year change (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Money market	77.0	28.4	105.3	77.0	30.9	107.8	0.0	8.9	2.4
Bond	25.0	16.6	41.6	20.8	15.4	36.2	-16.7	-6.9	-12.8
Shares	11.6	25.0	36.6	16.6	31.5	48.0	42.4	25.9	31.1
Mixed	27.3	6.6	33.8	28.8	9.7	38.5	5.7	48.0	13.9
Fund of funds	10.7	0.5	11.2	18.4	0.3	18.7	71.1	-38.0	66.4
Guaranteed	4.8	38.0	42.8	10.3	54.5	64.7	113.2	43.5	51.3
Real estate	-	-	-	1.2	0.0	1.2	-	-	-
Total	156.4	114.9	271.3	173.0	142.2	315.2	10.6	23.8	16.2

Source: AKAT

Creditable performance has been shown by shares funds, provided that the interest in shares funds registered in the Czech Republic was higher than the interest in foreign ones. Of course, we may wonder about future development in 2008, when already in the very beginning of the year markets were struck by strong slumps related to the U.S. mortgage



crisis and concerns about the world economy slowdown or even U.S. recession. This might mean a new situation for numerous fund investors after several successful years.

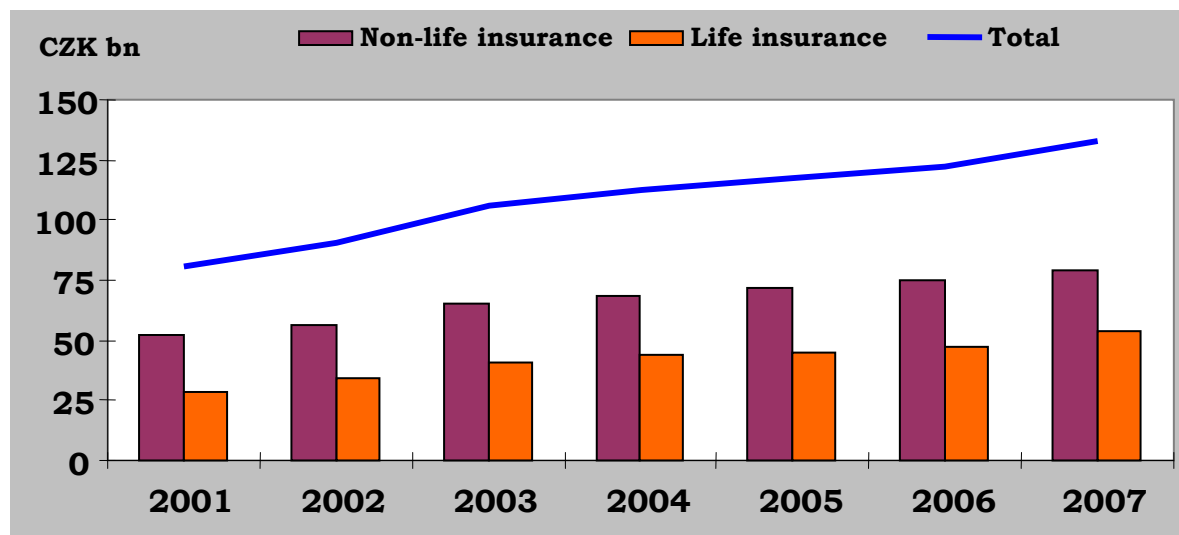
While, for example, in the last year markets managed to recover after sharp declines (e.g. the March or August slumps), the beginning of the year 2008 brought concerns about a possible longer decline period. For shares funds investors this will mean particularly compliance with the investment horizon of their funds, otherwise they might realize unnecessary losses in these volatile times. Here also one of the aspects of investing in unit trusts must be remembered – their investment strategy is governed by their statutes. Funds also often retain investments during harder times because they have set minimum volume limits for shares in their portfolios or they follow a selected benchmark.

Investors interested in real estate funds must consider the issue of right timing of their entry into the market. The real estate markets developments must not be neglected and thanks to globalization consequences of the economic growth slowdown (even in other countries) may affect us, as well.

4.4. Insurance companies

Unlike other European regions the territory of the Czech Republic was not struck by any substantial natural disaster last year. Therefore the insurance sector was not burdened by increased demands for insurance occurrences caused by extreme climatic effects. Higher insurance claims were recorded only regionally after the hurricane “Kyrill”, which struck the territory of the Czech Republic in the beginning of the year. Because of mild winters in the last and the current year property losses were low. In terms of losses caused by natural perils the year 2007 may be assessed as relatively trouble-free.

Graph 4.9: Development of gross premiums written



Source: CNB

After temporary stagnation the insurance market resumed its dynamics. The gross premiums written increased by 8.8 % in year-on-year terms and reached the total value of CZK 132.9 bn. Higher dynamics was driven mostly by life assurance, where gross premiums written grew by 14.6 %, particularly due to lump sum premium payments (increase by ca 34 %), and reached the value of CZK 54.1 bn. The increase in non-life assurance was lower (by 5.2 %). The volume thereof at the amount of CZK 78.8 bn represents 59.3 % of the total gross premiums written. This means that the non-life insurance dropped again in favour of the life assurance business (40.7 %), which constituted another step in gradual approximation to the common insurance structure of



advanced EU states (ca 60:40 in favour of life assurance). 10 years ago the share of life assurance amounted to 26.5 %.

Despite the rate acceleration individual insurance penetration in the Czech Republic remains low, compared to advanced countries. According to ČAP the average annual premium in life assurance in 2006 in the EU states amounted to EUR 1 359 EUR per capita, in the Czech Republic only to EUR 162. The gross premiums written to GDP ratio, i.e. the total insurance penetration coefficient in 2007 amounted to 3.7 %.

The positive development of gross premiums written was reflected also by the increasing number of insurance contracts concluded. In sectoral terms new investment insurance products prevail in life assurance, in non-life insurance ca 30 % of gross premiums written derive from motor third-party liability insurance and ca 22.5% belong to property insurance.

Table 4.16: Results of insurance companies ³⁷

As at 31/12	2003	2004	2005	2006	2007
Number of policies (thousand pieces)	20 211	20 256	21 303	22 216	23 241
of which: non-life insurance	13 871	13 913	14 840	15 456	16 317
life insurance	6 339	6 344	6 463	6 760	6 924
Number of newly concluded policies (thousand pieces)	5 224	5 161	5 786	8 024	9 016
of which: non-life insurance	4 411	4 082	4 941	7 238	8 102
life insurance	813	1 080	845	786	914
Total gross premiums written (CZK bn)	105.95	112.58	117.05	122.09	132.90
of which: non-life insurance	64.82	68.38	72.13	74.86	78.76
life insurance	41.13	44.20	44.92	47.23	54.14
Total insurance penetration (%)	4.10	4.00	3.90	3.80	3.70

Source: CNB

Profits formation was lower (CZK 12.8 bn) because extraordinary revenues from sale of ownership interests of Česká pojišťovna, which influenced the profits in 2006, could not be repeated. Employment in the sector remains at approximately the same level (+ 0.6 %), which upon the increasing performance in terms of gross premiums written implies increasing labour productivity.

The assets placement sourced by technical reserves has not changed significantly. The basic trend toward strengthening of the share of relatively less risky assets remains. Bonds guaranteed by the state or by international financial institutions constitute already almost 52 % of the life assurance portfolio. The conservative investment strategy of insurance companies derives also from the fact that the structure of their technical reserves placement is limited by regulatory requirements. The Czech insurance market does not show any signs of instability due to possible secondary impacts of turbulences in foreign financial markets. Although interest rates volatility in financial markets increased, particularly at the end of the year, adjustments of the maximum technical interest rate (2.4 %) have not been necessary. For policyholders the rate represents a guaranteed share in revenues from financial placements in life assurance.

As at the end of 2007 52 insurance companies (excl. ČKP³⁸) operated in the market. The order of ten biggest insurance companies has not changed compared to 2006. The highest

³⁷ The number of policies in life assurance does not include policies for additional insurance.

³⁸ ČKP (Česká kancelář pojistitelů, Czech Insurers' Bureau) is a professional organisation of insurers, which have been granted a licence to operate the motor third-party liability insurance.



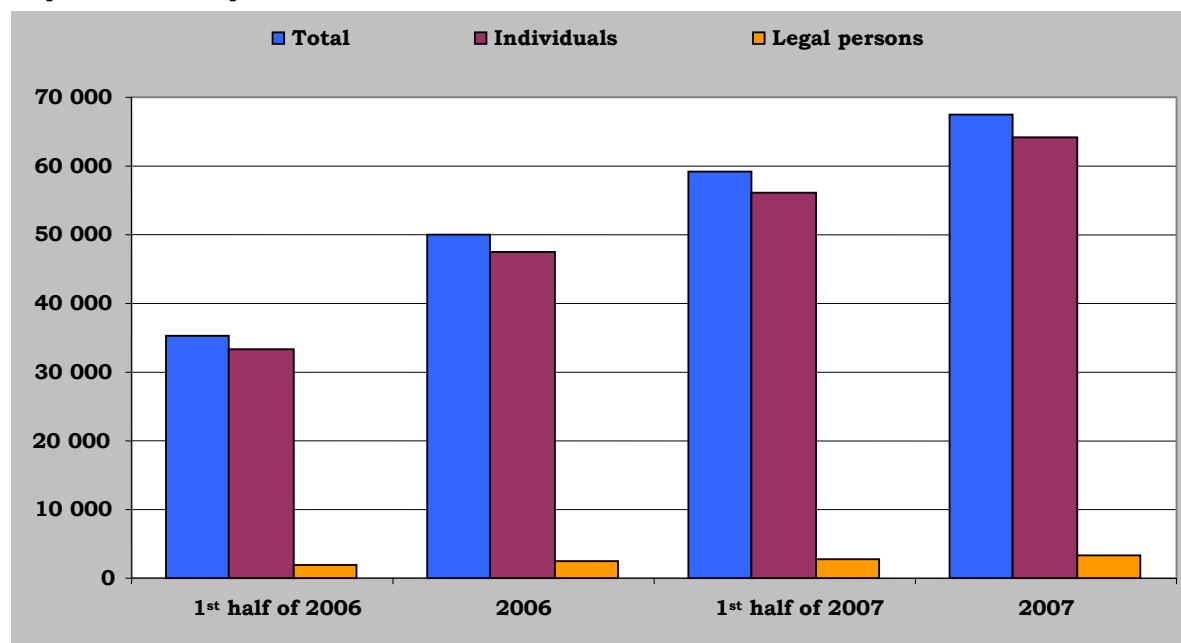
market share³⁹ has been taken by Česká pojišťovna (ca 30 %), the second place has been retained by Kooperativa (ca 22 %) and the third place has been taken by Allianz (ca 7 %). Higher than 5 % market shares have also been reached by ČSOB Pojišťovna and Generali. Other insurance companies hold market shares below 5 %. Significant position in the life assurance business belongs to ING Životní pojišťovna, which takes the second place with its market share of ca 13.5 %. In addition to the so-called domestic insurance companies 478 notifications by insurance companies based in EU/EEA able to provide cross-border services had been received by the end of 2007.⁴⁰ However, their activities in the Czech insurance market have been limited so far.

Several insurance companies asked CNB for extension of the current licence for insurance business by new insurance branches and groups. Hasičská pojišťovna, AIG pojišťovna, Dolnorakouská pojišťovna and Direct pojišťovna became members of ČKP in 2007.

In July 2007 an agreement on creation of a joint-venture was executed by the Generali insurance company and PPF Group. The PPF Group, which holds 49 %, invested Česká pojišťovna into the joint-venture (Generali PPF holding). The joint-venture agreement came into effect in January 2008. According to estimates the new entity could have more than 9 million clients in 12 countries, holding the leading position in the Czech Republic, Hungary and Slovakia. As a consequence of long-term results and higher integration of Česká pojišťovna into international structure its rating was increased by three grades by two international agencies (Moody's and Standard & Poor's) at the beginning of 2008.

The Austrian insurance concern Vienna Insurance Group (VIG), already operating in the Czech Republic through the insurance companies Kooperativa a Česká podnikatelská pojišťovna announced in March 2008 that by acquisition of the insurance company sVersicherung it acquired also a majority share in Pojišťovna České spořitelny. The transaction is subject to approval by appropriate competition authorities and local supervisors of insurance industry. In February 2008 VIG also announced its intention to found its own reinsurance company based in Prague. The reinsurance company should launch its operations in 2009.

Graph 4.10: Development of the number of insurance intermediaries



Source: CNB

³⁹ Market shares are based of data provided by ČAP

⁴⁰ Including 100 branches of these insurance companies from EU/EEA.



The significant increase in the number of insurance intermediaries (by 14.4 %) continued also in the year 2007. As at the end of the year their number reached 67 530 persons. Majority of them are registered as subordinated insurance intermediaries (51.6 %) and exclusive insurance agents (24.9 %). The major year-on-year increase in the number of foreign intermediaries has been caused by entities (individuals) from Slovakia.

Table 4.17: Insurance intermediaries by position (category)⁴¹

Entity registered as at 31/12	2006			2007			year-on-year change (%)		
	FO	PO	Total	FO	PO	Total	FO	PO	Total
VPZ	7 496	211	7 707	8 589	236	8 825	14.58	11.85	14.51
PPZ	24 334	867	25 201	33 726	1 126	34 852	38.60	29.87	38.30
VPA	13 018	58	13 076	16 726	89	16 815	28.48	53.45	28.59
PA	459	514	973	486	581	1 067	5.88	13.04	9.66
PM	132	407	539	146	453	599	10.61	11.30	11.13
SLPU	48	77	125	55	91	146	14.58	18.18	16.80
PZ EU	2 058	442	2 500	4 512	714	5 226	119.24	61.54	109.04
Total	47 545	2 576	50 121	64 240	3 290	67 530*	35.11	27.72	34.73

Source: CNB

* of which: licences have been withdrawn from 4 483 entities

The hitherto system of insurance intermediaries registration does not seem optimal. Future amendments to legislation in this area should particularly aim to simplify and unify the regulation with products distributors in other sectors in the financial market. More emphasis should also be paid to assumption of responsibility for operations of tied and subordinated insurance intermediaries by their so-called umbrella entities. However, legislative works in this area depend on an assessment of application of the EC Directive on insurance intermediaries in national regulatory systems.

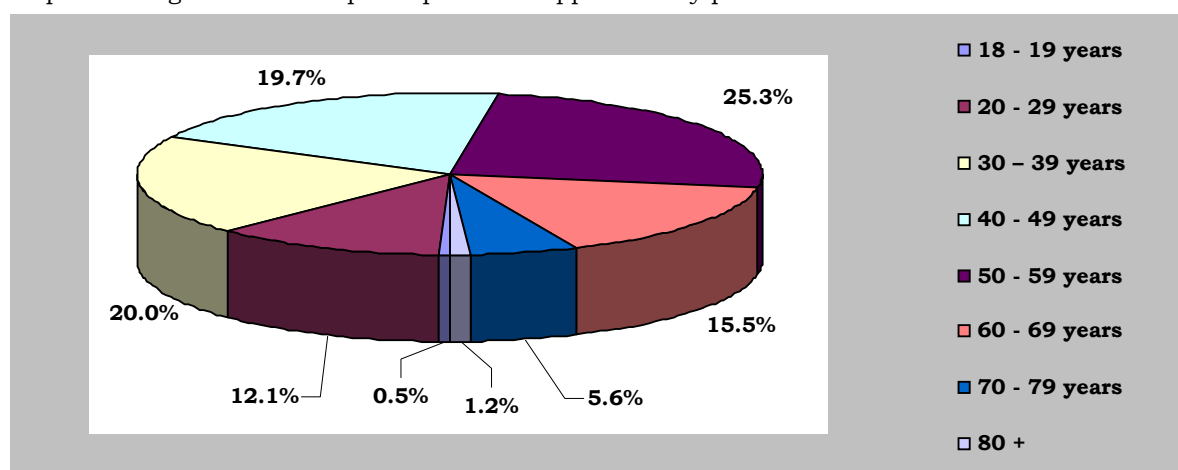
4.5. Supplementary pension insurance

The number of supplementary pension insurance participants has been increasing almost at the same rate as in the preceding year. In general pension funds as at 31/12/2007 registered almost 3.94 million participants. Due to maintained annual growth dynamics of 9.54 % the absolute increment of the number of participants amounted to 342 712.

⁴¹ Explanation: VPZ = tied insurance intermediary, PPZ = subordinated insurance intermediary, VPA = exclusive insurance agent, PA = insurance agent, PM = insurance broker, SLPU = independent loss adjuster, PZ EU= foreign insurance intermediary, FO = individuals and PO = legal persons.



Graph 4.11: Age structure of participants in supplementary pension insurance



Source: MoF

The age structure of the year-on-year increase of the number of participant implies that the highest growth by 29.96 % was achieved in the youngest age group of 18 - 19 years. This is a favourable sign not only with respect to “rejuvenation” of the participants portfolio but also with respect to the interest of the young generation in their future, although in absolute figures it means mere 5 thousand participants. On the other hand, the oldest age category, which has also recorded high percentage growth, indicates use of the supplementary pension insurance product for short-term savings rather than for real pension insurance. In contrary to the remaining categories, only a mild increase in the number of participants was recorded by the two largest categories of 40 - 49 years and 50 - 59 years, however, these categories had already shown high penetration rates.

Table 4.18: Participants in supplementary pension insurance by age

as at 31/12	2004	2005	2006	2007	year-on-year change	
					abs.	(%)
18 - 19 yrs	8 872	12 522	16 513	21 461	4 948	29.96
20 - 29 yrs	319 707	368 952	420 387	475 887	55 500	13.20
30 - 39 yrs	516 646	601 614	686 156	786 781	100 625	14.67
40 - 49 yrs	667 016	705 074	735 250	777 167	41 917	5.70
50 - 59 yrs	874 832	931 001	966 952	996 474	29 522	3.05
60 - 69 yrs	395 418	452 878	530 932	610 778	79 846	15.04
70 - 79 yrs	153 182	173 965	196 484	218 919	22 435	11.42
80 +	28 057	33 721	40 971	48 890	7 919	19.33
Total	2 963 730	3 279 727	3 593 645	3 936 357	342 712	9.54

Source: MoF

The number of supplementary pension insurance policies with employer’s contribution has exceeded the one million limit. As at 31/12/2007 this category contained 1 042 346 policies, i.e. by 74 062 more than a year ago (increase by 7.64 %). As anticipated the highest share of policies with employer’s contribution exists in the age category of forties and fifties.

Closer examination of use of employer’s contributions for supplementary pension insurance shows evident differences among age categories, as well as gender differences. In all age categories employer’s contributions are used more by men, in average by 10 p.p.



The highest gender difference in the share of policies with employer's contribution is seen in the category of people in their sixties. This difference has been evidently caused by earlier retirement of women, which is well reflected also in the abrupt change between categories 60 - 64 years and 65 - 69 years. However, a closer analysis shows that the share of women sharply decreases already in the category of 55 - 59 years. The relatively lowest difference is seen in the group of employees younger than 30. On the other hand, in the category 30 - 34 years the difference grows considerably. One of the main reasons for this is the fact that many women in this age category opt for their maternity leave. In the category 35 - 54 years the gender proportion of policies with employer's contribution policies is stabilized. Differences results also from different gender presence in certain sectors or from the type of employer.

Table 4.19: Share of policies with employer's contribution by age group and gender

Age	Number of policies			Share of policies with employer's contribution		
	Men	Women	Total	Men	Women	Total
18 - 19	11 552	9 909	21 461	3.16%	0.95%	2.14%
20 - 24	87 908	82 550	170 458	12.34%	9.11%	10.77%
25 - 29	152 919	152 510	305 429	26.50%	19.14%	22.82%
30 - 34	212 339	207 195	419 534	36.94%	20.28%	28.71%
35 - 39	178 850	188 397	367 247	40.37%	26.24%	33.12%
40 - 44	183 583	206 412	389 995	40.39%	29.68%	34.72%
45 - 49	178 859	208 313	387 172	37.97%	29.81%	33.58%
50 - 54	221 765	262 679	484 444	42.54%	35.18%	38.55%
55 - 59	240 475	271 555	512 030	42.36%	28.05%	34.77%
60 - 64	178 187	202 659	380 846	29.27%	8.72%	18.33%
65 - 69	100 585	129 347	229 932	8.71%	1.20%	4.48%
70 - 74	56 736	77 451	134 187	1.47%	0.33%	0.81%
75 - 79	35 243	49 489	84 732	0.46%	0.18%	0.29%
80 - 84	14 218	21 999	36 217	0.24%	0.10%	0.16%
85 - xx	4 453	8 220	12 673	0.11%	0.06%	0.08%
Total	1 857 672	2 078 685	3 936 357	32.44%	21.16%	26.48%

Source: MoF

The table below shows a continuing mild increase in average monthly contributions paid by the supplementary pension insurance participants to CZK 496 (excl. employer's contributions), which is a value by 4.4 % higher than the value as at 31/12/2006. On the other hand, the value of state contribution increased to CZK 104, which in percentage terms means an increase by 0.04 %. This contradiction results from the different dynamics of the individual groups by contribution amounts, when upon general increase in the number of participants by almost 10 % the number of participants with monthly savings of at least CZK 2 500 recorded a year-on-year growth by 45 % and the category of CZK 2 000 - 2 499 by 28 %. The growth of the average monthly contributions is therefore "driven" by a relatively narrow group of participants with above-average savings, because for example the number of participants in these two categories is lower than 2.5 % of the total number of participants.



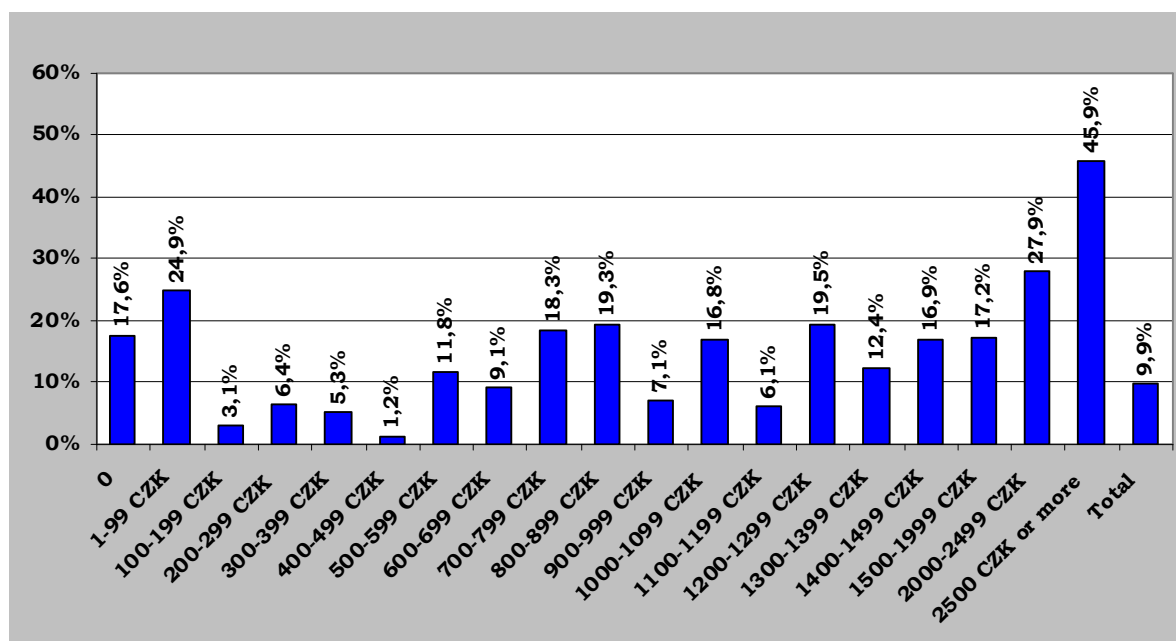
Table 4.20: Distribution of average monthly contributions amount

CZK/month	2003	2004	2005	2006	2007
Contribution for old-age pension	373.0	385.3	399.3	406.4	414.1
Contribution for early-retirement pension	144.5	153.3	162.1	171.3	181.4
Participant's contribution	416.7	435.6	459.1	474.8	495.9
State contribution	97.3	99.6	100.8	103.6	104.0

Source: MoF

The average monthly contribution amount per participant has been growing steadily (from CZK 190 / month for the category of 18 - 19 years) with the participant's age. The limit of average CZK 500 / month is exceeded by participants older than 45 years and up to 59 years contributions show an upward trend. But also in older age categories average monthly contribution amounts exceed the CZK 500 limit.

Graph 4.12: Comparison of year-on-year increase in number of participants by monthly contribution amounts

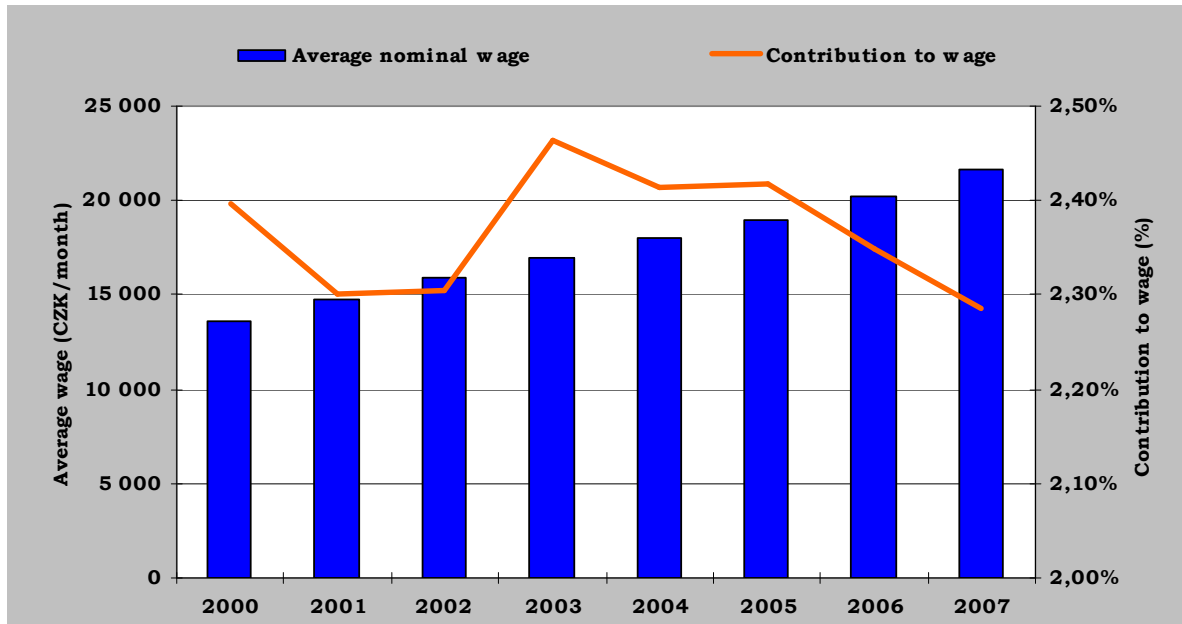


Source: MoF

Despite the mentioned increases the supplementary pension insurance remains only an additional source, because the low level of average monthly contribution of participants, even when "improved" by the state or employer's contribution, does not create sufficient savings amount for the pension age.



Graph 4.13: Relation of contribution for supplementary pension insurance and average wages



Source: MoF, CZSO

The graph above implies that unless the participants increase sufficiently their regular participant contributions, the contribution to wages ratio will continue its decrease. Due to that created savings for old age will not achieve the appropriate level.

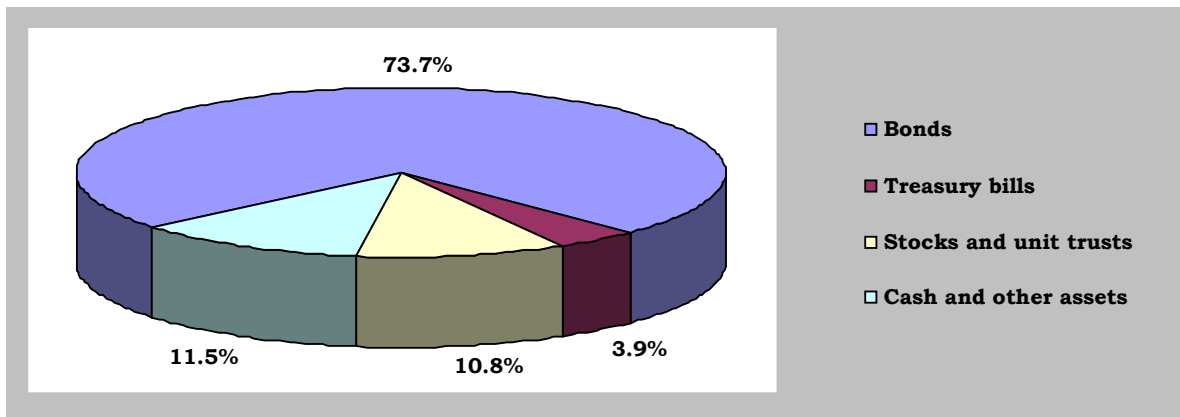
Saturation of the supplementary pension insurance market is one of the main reasons for increase of commissions for new participants acquisition. These acquisition expenses constitute one of the main cost items in pension funds operations, which influence their yields for participants. In this respect the year 2007 did not belong to the most successful ones because developments in capital markets (either stocks exchange slumps or increases in interest rates with direct impacts on bond values) did not allow pension funds with conservative strategies to grow more. Appreciation of the participant's assets in 2007 will probably remain deep below the inflation limit expressed as an increment of the consumer price index, which in December 2007 amounted to 5.4%, compared to the same month of the preceding year.⁴²

Reserves for higher yields may also be found in legislative rules for investments and/or management of pension funds, too conservative to allow higher yields for participants.

⁴² Source: CZSO



Graph 4.14: Allocation of assets of pension funds as at 31/12/2007⁴³

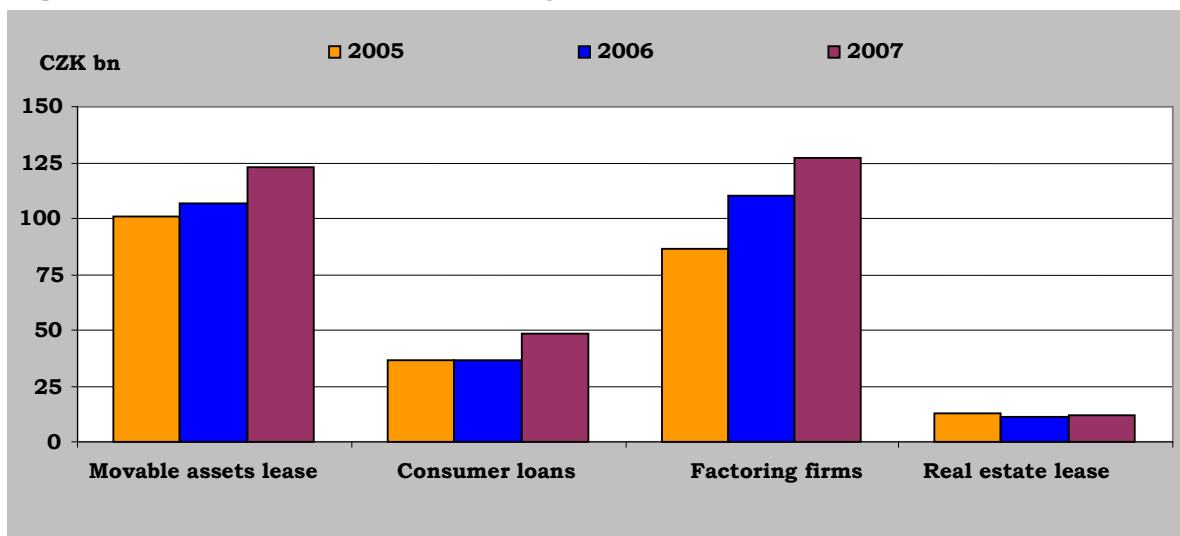


Source: APF Czech Republic

4.6. Non-banking credit institutions

All the below stated coefficients increased in the past period. By the end of 2007 members of the Association had concluded 1 533 697 contracts for consumer loans (492 998 personal loans, 329 198 revolving loans and 711 501 credit and instalment contracts in scope of financing at points of sale) at the total amount of CZK 47.91 bn. In year-on-year comparison the total amount increased by 30.83 %.⁴⁴

Graph 4.15: Selected indicators of non-banking loan institutions



Source: ČLFA

Compared to 2006, leases of movable items grew by 15.4 % and reached CZK 122.75 bn. In a long run, financing through factoring firms has been gaining popularity as a corporate financial instrument enabling collection of short-term trade claims before due dates. Such loans grew by 15.2 % in comparison to the year 2006.

⁴³ See table 8.5 in Appendix 2.

⁴⁴ See table 8.6 in Appendix 2.



5. RELATION OF PUBLIC AND GOVERNMENT SECTOR TO FINANCIAL MARKET

5.1. Government sector balance

In 2007 the government sector operations according to ESA 95 methodology ended in a deficit amounting to CZK 56.1 bn, i.e. 1.6 % of GDP. The resulting negative balance of operations of the government institutions sector was influenced particularly by the sector of central government institutions. Their operations produced a deficit amounting to CZK 83.7 bn, i.e. 2.4 % of GDP. The largest portion derives from the state budget deficit (incl. operations by the National Fund and Privatization Fund), which in 2007 amounted to CZK 82.9 CZK. Therefore net government borrowings in 2007 were below the Maastricht convergence criteria for single European currency adoption. The better than anticipated result was based on substantially better tax revenues (by ca CZK 18 bn), higher than estimated revenues from market production of the government sector, which include e.g. revenues related to implementation of electronic toll system and revenues from non-market production of organizations receiving contributions from the state budget. Total revenues (sources) reached CZK 1 451.8 bn. In expenditures (use of total CZK 1 507.2 bn) the government did not accomplish all anticipated subsidies and other current transfers. Also certain advised government investments were not implemented. Expenses not realized by the state organization **units** have been mostly transferred to reserve funds, provided that cash transfers of such funds were financed by a government bond issue. The balance of reserve funds of state organization units as at the end of 2007 amounted to ca CZK 97 bn. Better than expected tax revenues collection influenced also economic results of local government institutions (surplus of CZK 10.5 bn) and social insurance funds (surplus of CZK 17.4 bn).

In 2008 the government deficit will probably deteriorate only slightly in absolute terms. Negative impacts will result from worse macroeconomic development parameters, namely growing inflation pressures, counterbalanced by reform measures adopted in 2007. Positive balances may be expected in sub-sectors of local government institutions (ca CZK 2 bn), particularly social security funds (health insurance companies ca CZK 15 bn). The reason of the surplus operations consists in the relatively rapid increase of the national economy and probably higher than expected tax returns, influenced particularly by the increased collection of value added tax related to increase of its reduced rate. Taxation will continue its shift from direct to indirect taxes. Another element improving the balance of the government institutions sector is the supposed increase of EU aid for investment measures implemented by the government sector, which will replace domestic sources. This development is supported also by the relatively high estimated dynamics of gross fixed capital formation. On the other hand, risks for further development may derive from higher requirements on Czech co-financing of mentioned projects. The upward trend of social benefits expenditures has slowed down, mostly due to impacts of adopted reform measures in social area. Therefore we may expect the government expenditures to change in favour of expenditures supporting further economic growth. The Ministry of Finance predicts the government deficit in 2008 at CZK 58.3 bn (i.e. 1.5 % of GDP).

Revenues from privatization (revenues from sale of shares and other ownership interests) in 2007 reached CZK 12.6 bn. Most of them derived from the sale of shares in the joint-stock company ČEZ for more than CZK 11.6 bn. For 2008 privatization revenues are expected at the amount of CZK 20.7 bn, provided that most of these funds will be reserved as a funding source for the State Fund of Transport Infrastructure.

The government sector debt in 2007 amounted to CZK 1 019.4 bn, i.e. 28.7 % of GDP, which constituted a year-on-year decrease 0.7 p.p., the growth dynamics of the government debt did not change in the year-on-year comparison. For the year 2008 assumptions expect the debt to increase by ca CZK 75.8 bn, the GDP percentage will decrease by 0.3 p.p. State



guarantees, purchase of Gripen fighters, imputation related to toll gates and purchase of shares in ČEPS at the amount of ca CZK 41 bn have been imputed into the government debt.

The largest portion of the government debt has a form of debt securities, provided that the debt securitization process will continue. The share of borrowings in the government debt has been gradually decreasing for several years already.

5.2. State budget

The state budget for 2007 was approved with a deficit amounting to CZK 91.3 bn. Total expected expenditures amounted to CZK 1 040.8 bn and revenues to CZK 949.5 bn. Real expenditures totalled to CZK 1 092.3 bn and revenues CZK 1 025.9 bn. Therefore the state budget operations ended in a deficit of CZK 66.4 bn.

Higher **revenues** were caused particularly by higher tax revenues, which increased by CZK 16.6 bn (namely individual and corporate income taxes). Also the collection of social security contributions at the amount of CZK 12.2 bn exceeded the approved budget amount. Revenues from old-age pension insurance were by CZK 10.6 bn higher than expenditures intended for pension disbursements. This surplus will be transferred to the newly created reserve account for the pension reform, which shall also receive surpluses from years 2004 and 2005 and dividends from energy companies for 2007 (total balance CZK 17.6 bn). Simultaneously in 2007 transfer payments from EU at the amount of CZK 24.5 bn were not realized. Total revenues are also substantially distorted by transfers from reserve funds (CZK 51.9 bn) and the state guarantee fund (CZK 8.4 bn). Total revenues of the state budget after adjustment for these transfers amounted to CZK 965.6 bn.

The non-realized income from the EU has also caused the considerable decrease of subsidy and transfer disbursements from the state budget. The structure of **expenditures** divided into current and capital expenditures almost has not changed in the year-on-year comparison. The share of mandatory expenses in total expenditures has decreased slightly. The total value of state budget expenditures has been substantially influenced by transfers to reserve funds (CZK 79.8 bn) and the state guarantee fund (CZK 12.2 bn). The amount of CZK 32.7 bn of funds transferred into reserve funds had an investment nature, i.e. 69 % of all capital expenditures. Almost CZK 22.7 bn of this amount were directed to Ministry of Transport, Ministry of Defence, Ministry of Education, Youth and Sports and Ministry of Environment. Expenditures adjusted for these transfers reached CZK 1 000.9 bn, however, they should be increased by the coverage of loss of ČKA, realized out of the budget and increased during the year from CZK 7 bn to CZK 13.2 bn. The payment to EC own resources amounted to CZK 27.2 bn, traditional out-of-budget own resources reached CZK 4.8 bn.

The total state budget balance after adjustment for transfers from and to own resources of state organizational units and inclusion of the ČKA's loss amounted to CZK 48.5 bn.

Table 5.1: Development of state budget revenues, expenditures and balances

as at 31/12 (CZK bn)	2002	2003	2004	2005	2006	2007	Year-on-year change (%)
Revenues incl. repayments	691.2	690.5	763.2	819.7	865.4	965.3	11.54
Expenditures incl. gross borrowings	736.6	797.0	832.2	880.7	972.8	1 013.9	4.22
Balance	-45.5	-106.5	-69.0	-61.1	-107.4	-48.6	-54.76

Source: MoF



5.3. Government debt and state guarantees

Deficit management of the state budget will continue also in 2008, generating an increase of the government debt value; however, since 2003 its growth has been gradually declining.

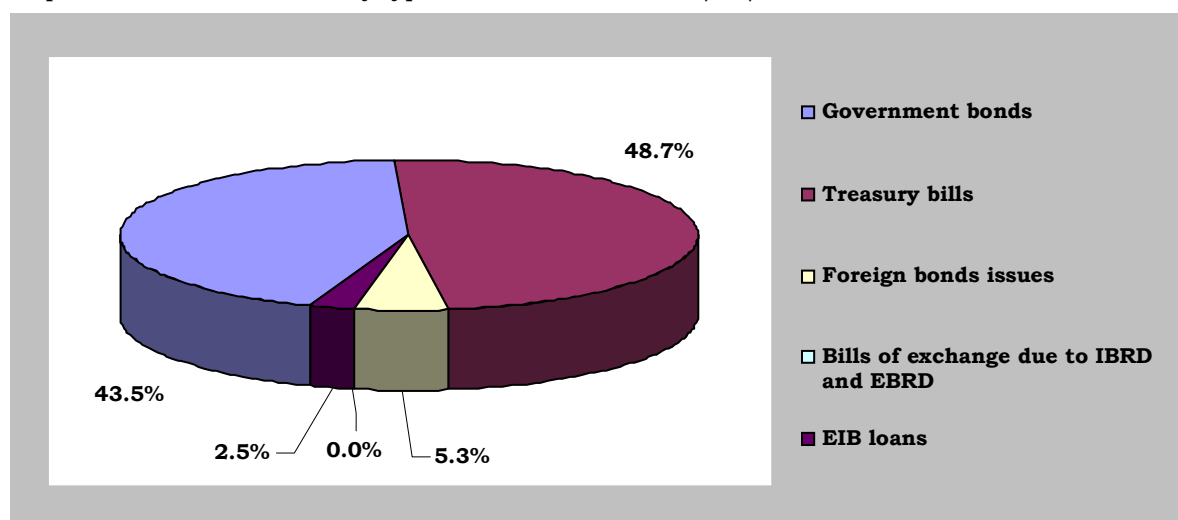
As at the end of **2007** the non-consolidated government debt amounted to CZK 892.3 bn and by the end of 2008 it supposed to increase to CZK 975 bn and its share in the gross domestic product should increase from 25.1 % to 25.3 %. The growth in the stated period applies particularly to the domestic government debt, partially also to the foreign government debt. This implies that the process of the government debt internalization continues.

By the end of the first quarter of **2008** issues of medium-term and long-term bonds recorded net decrease at the nominal value of CZK 0.9 bn. The total gross issue in the first quarter of the year amounted to CZK 35.3 bn, i.e. 21.4 % of the maximum approved limit valid for the year 2008 (subject to deficit approved at the amount of CZK 70.8 bn). In the same period T-bills in circulation decreased by CZK 35.3 bn. As a result the share of the short-term government debt dropped by 2.2 p.p. to 16.5 %. This development had been caused also by the decline of monetary instruments in circulation, which in the first quarter of the year amounted to CZK 35.3 bn. Instead of T-bill issues, funds from the summary account of the state treasury's current management efforts will be used to cover short-term financing of lending needs of the government.

The average maturity of the government debt as at the end of the first quarter has been extended to 6.7 years and slightly exceeds the declared target range for the given year.

In 2008 the value of portfolio of **risk state guarantees** paid in scope of the state budget expenditures has decreased. The importance of the guarantees in relation to the government debt value dropped below 6 % and therefore their structure cannot divert the assessed quantitative criteria from their declared target values.

Graph 5.1: Government debt by type of instrument as at 31/12/2007



Source: MoF

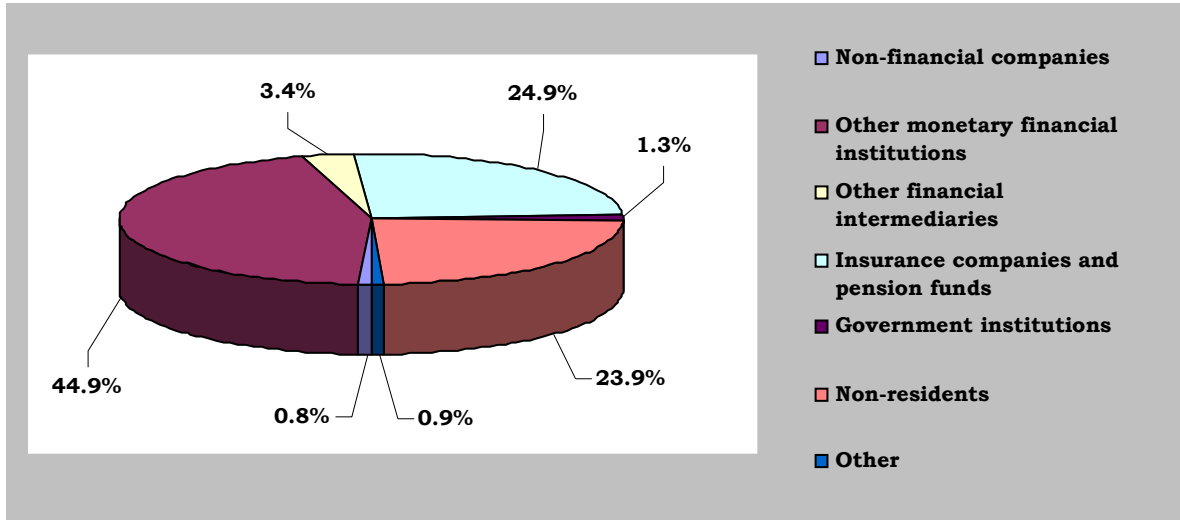
In the **years 2007 and 2008** the government debt is expected to increase by CZK 172.5 bn. The internal government debt has been fully securitized and in the given period it will increase by CZK 130.9 bn. The debt growth results from the volume of issued medium- and long-term government bonds (by CZK 160.7 bn) and decrease of the volume of issued T-bills (by CZK 27.4 bn). The internal debt in 2007 increased by CZK 88.4 bn. Revenues from



issues of state bonds are intended to fund the state budget deficit and ČKA's losses. These losses have been covered from out-of-budget funds since 2005. In 2007 the state budget ended with a deficit of CZK 66.4 bn and for 2008 the planned state budget deficit amounts to CZK 70.8 bn. The last reimbursement of the ČKA's loss funded from revenues of government bonds issues was performed in 2007 at the amount of CZK 13.2 bn.

The external government debt will increase in 2007 and 2008 by CZK 41.6 bn. The main reason of this increase consists in foreign bonds issues (CZK 28.6 bn) and increased value of loans provided by EIB (by CZK 13.3 bn).

Graph 5.2: Government debt by creditor as at 31/12/2007



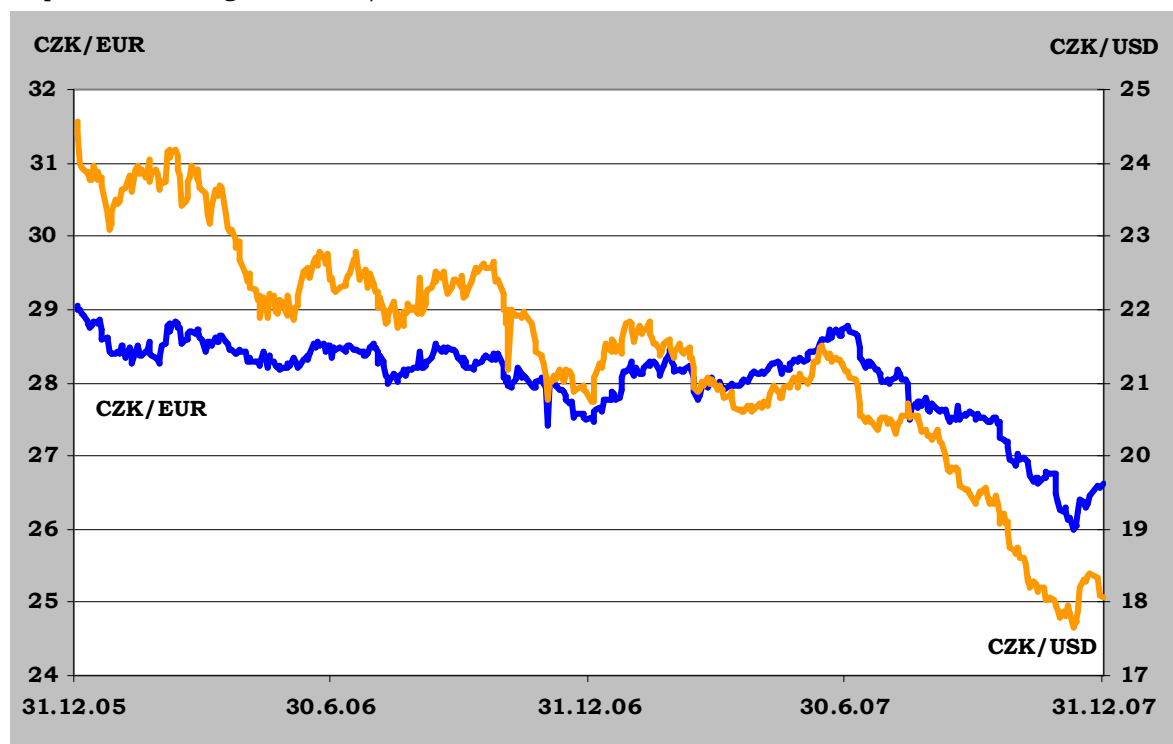
Source: MoF



6. FOREIGN EXCHANGE MARKET

In the second half of the year the Czech currency appreciated strongly, during the year in general it appreciated against the main currencies. Against the euro it gained 3.18 % to 26.62 CZK/EUR and against the U.S. dollar it gained substantial 13.40 % to 18.08 CZK/USD. In December it broke the limit of 26 CZK/EUR. At the same time USD was less than CZK 18.

Graph 6.1: Exchange rate CZK / main currencies



Source: CNB

Table 6.1: Exchange rate CZK / main currencies

Average exchange rate in year						
	2003	2004	2005	2006	2007	year-on-year change (%)
CZK/EUR	31.84	31.90	29.78	28.34	27.76	-2.05
CZK/USD	28.23	25.70	23.95	22.61	20.31	-10.18
Exchange rate as at the end of						
	2003	2004	2005	2006	2007	year-on-year change (%)
CZK/EUR	32.41	30.47	29.01	27.50	26.62	-3.18
CZK/USD	25.65	22.37	24.59	20.88	18.08	-13.40

Source: CNB, CZSO

The appreciation trend of the crown was supported by the economic growth of the Czech Republic. The Czech economy shows a stable high growth rate. Trade balance surpluses have been increasing steadily. The money market has not been substantially struck by the U.S. mortgage crisis effects so far. Exchange rates only reflect consequences of this crisis



for the real economy. The U.S. is threatened by recession and the Eurozone will probably face a GDP growth slowdown.

Table 6.2: External financial relations

annual (CZK bn)	2003	2004	2005	2006	2007
Trade balance	-69.8	-13.4	59.4	65.1	117.5
Payment balance current account	-160.6	-147.5	-48.5	-100.8	-89.0
Payment balance capital account	-0.1	-14.2	4.7	8.5	19.7
Payment balance financial account	157.1	177.3	154.8	104.9	104.5

Source: CNB - ARAD

The Czech currency exchange rate development has also been influenced by repeated interest rate increases made by CNB. Growing inflation pressures made the Bank Board of CNB to tighten its currency policy. ECB has not changed its rates since mid-2007. On the other hand, U.S. interest rates dropped, which resulted in significantly higher strengthening of the CZK/USD exchange rate compared to the CZK/EUR exchange rate. After several years interest rates in the Czech Republic, Eurozone and in the U.S.A. have approximated mutually.

Table 6.3: Comparison of economic indicators

(%)	Inflation (year-on-year)			Key interest rate of central bank ⁴⁵		
	Czech Republic	Eurozone	USA	Czech Republic	Eurozone	USA
January 07	1.3	1.8	2.1	2.50	3.50	5.25
February 07	1.5	1.8	2.4	2.50	3.50	5.25
March 07	1.9	1.9	2.8	2.50	3.75	5.25
April 07	2.5	1.9	2.6	2.50	3.75	5.25
May 07	2.4	1.9	2.7	2.50	3.75	5.25
June 07	2.5	1.9	2.7	2.75	4.00	5.25
July 07	2.3	1.8	2.4	2.75	4.00	5.25
August 07	2.4	1.7	2.0	3.00	4.00	5.25
September 07	2.8	2.1	2.8	3.25	4.00	4.75
October 07	4.0	2.6	3.5	3.25	4.00	4.75
November 07	5.0	3.1	4.3	3.25	4.00	4.50
December 07	5.4	3.1	4.1	3.50	4.00	4.25

Source: CZSO, CNB, Eurostat, ECB, Fed

ECB increased its key interest rate twice in 2007, and just as CNB, always by 0.25 p.p. The rates were changed in March and June and the basic rate as at the end of the reported period settled at the level of 4 %. Unlike ECB, the U.S. central bank after 4 years of growth reduced its basic interest rate three times in 2007⁴⁶ and closed the year at 4.25 %. The main reason for the repeated reductions consisted in consequences of the real estate market crisis, which had negative impacts on U.S. banks and subsequently on the entire American economy.

⁴⁵ CR – 2T Repo rate of CNB, Eurozone – ECB's main refinancing operations Minimum Bid rate and U.S.A. – Fed's intended federal funds rate.

⁴⁶ Fed reduced the rate in September by 0.5 p.p., in October by 0.25 p.p. and in November by 0.25 p.p. again



7. FINANCIAL MARKET ACTIVITIES OF MoF

7.1. Legislation regulating the financial market

Also in 2007 legislative activities had substantial importance for the Czech financial market, both at the EU and the national levels.

At the Community level intense discussions on the project of preparation of a new regime for insurance institutions solvency, the so-called Solvency II, were held in 2007. The new Directive on payment services in the internal market constitutes a very important piece of legislation. EC continued its consultancy activities related to further developments of regulation of collective investment funds (access to real estate funds, hedge funds and other alternative investments, possible amendments to regulation of the current harmonized funds - UCITS). Procedural rules and assessment criteria for approvals to acquisitions of shares in financial institutions have been changed.

In mid-2007 an amendment to the Act transposing the Directive on capital requirements on credit institution and securities dealers (Basel II) came into effect.

By the amendment to the Act on capital market undertakings, approved by the Parliament on 7 May 2008, the Czech Republic complies with the obligation to transpose the Directive of the European Parliament and of the Council on markets in financial instruments (MIFID) into Czech legislation. The Act should come into effect by the summer 2008. The bill presents most substantial changes to the capital market business in the last 10 years.

The Act will improve the position of customers in the Czech capital market and conditions for capital market undertakings and it will create better conditions for cooperation of appropriate supervisory authorities of the EU Member States. It also aims to strengthen competition in the area of investment services and therefore make the services cheaper for customers.

Specifically we may mention that the amendment newly extends the scope of investment instruments, which may be offered to customers only subject to a licence granted by the Czech National Bank, which should improve the consumer protection. Rules for approach to clients are changed, for example a dealer shall be obliged to perform an order given by a customer under the best terms possible, i.e. basically at the best price, and the dealer shall be obliged to assess appropriateness of offered investment services and investment instruments for a particular customer.

The amendment provides changes also in the area of organization of markets in investment instruments. It newly introduces regulation of a so-called multilateral trading system as a special trading platform for investment instruments. A substantial change consists also in extension of requirements on regulated markets transparency and information to be given to customers, because the amendment introduces an obligation to publish information on demand for and offer of securities, on concluded trades etc.

The Ministry of Finance prepared a draft Act on insurance business, which shall mean particularly implementation of new European rules for reinsurance. It significantly reflects the Directive on reinsurance, which simultaneously changes also basic conditions for life and non-life insurance and substantially changes the supplementary supervision of insurance and reinsurance business performed within a group. The new Insurance Act will regulate operations of domestic and foreign reinsurance companies (the current Act does not regulate this business at all), therefore reinsurance companies will be subject to a similar regime as insurance companies. In addition to implementation of the Reinsurance Directive the draft Insurance Act includes also transposed and amended provisions of other insurance directives and therefore it improves also certain provisions aimed to strengthen



the financial stability of insurance companies. These include management and control systems, technical reserves or financial placement structure.

The Ministry of Finance has also launched consultations with market participants in scope of transposition efforts with respect to the above mentioned Directive on payment services.

Key issues in discussions on conceptual changes in 2007 undoubtedly included the pension reform, which should separate assets of current pension funds from the participant's assets. This should bring more transparency into management of funds and increase their credibility and attractiveness for people.

Institutional integration of the financial market supervision (which took place in 2006 by merger of supervisory authorities into the Czech National Bank) was followed by works on an intended regulation of supervisory activities, which should concentrate certain issues of financial market supervision into a single summary act.

Preparation works continued also in the sphere of legislative aspects of adoption of the euro. Also other amendments to legal regulations were prepared in order to solve specific issues.

7.2. Non-legislative efforts of MoF

In 2007 the Ministry of Finance continued its efforts in the area of development of the financial market and consumer protection. The key event was the formulation of a framework policy of consumer protection, a document describing reasons for active state interventions, as well as key areas of such interventions, called consumer protection pillars. The first pillar consists in securing awareness, it means a guarantee of consumers' access to basic information on financial products and their providers, with a specified quality. This quality means completeness, comprehensibility, balance, transparency, comparability and provision of information at adequate time. A parallel target in the sphere of awareness consists in achievement of adequate professional qualification of distributors of financial products and services who supply the information to consumers. A related pillar consists in financial literacy, which is a prerequisite for consumers' ability to process the received information and transform the information into particular financial decisions. And finally, the third pillar consists in measures that should place a consumer into an adequate position toward a financial institutions, i.e. particularly possibility to effectively protect and enforce the consumer's rights.

The Ministry of Finance managed and supervised elaboration of "Financial Education Strategy", which is already being implemented into educational schemes.

Due to the continuing bad financial position of the Guarantee Fund of Dealers in Securities (hereinafter referred to as "Fond"), which prevented reimbursements of justified claims of clients injured by bankrupt securities dealers, the Ministry of Finance elaborated a draft amendment to Act No. 256/2004 Coll., on capital market undertakings, which allowed the Fund to receive a subsidy.



LIST OF ABBREVIATIONS

abs.	Absolutely
AKAT	Asociace pro kapitálový trh (Capital Market Association)
APF CR	Asociace penzijních fondů České republiky (Association of Pension Funds of CR)
b.p.	Basis point
ČAP	Česká asociace pojišťoven (Czech Insurance Association)
CB	Central bank
ČBA	Česká bankovní asociace (Czech Banking Association)
ČKA	Česká konsolidační agentura (Czech Consolidation Agency)
ČKP	Česká kancelář pojistitelů (Czech Insurers' Bureau)
ČLFA	Česká leasingová a finanční asociace (Czech Leasing and Financial Association)
CNB	Czech National Bank
CR	Czech Republic
CZK	International currency code of Czech crown
CZSO	Czech Statistical Office
EBP	Energetická burza Praha (Prague Energy Exchange)
EBRD	European Bank for Reconstruction and Development
EC	European Communities
ECB	European Central Bank
EEA	European Economic Area
EIB	European Investment Bank
EU	European Union
EUR	International currency code of euro
Fed	Federal Reserve System (U.S. Central Bank)
FESE	Federation of European Securities Exchanges
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IF	Investment firm
IPO	Initial Public Offering
KB	Komerční banka
MB	Mortgage bond
MEYS	Ministry of Education, Youth and Sports
MiFID	Markets in Financial Instruments Directive
MIT	Ministry of Industry and Trade
ML	Mortgage loan
MoF	Ministry of Finance of the Czech Republic
MRD	Ministry for Regional Development
OECD	Organisation for Economic Co-operation and Development
OEUT	Open-ended unit trust
OKEČ	Branch Classification of Economic Activities (CZ_NACE)
p.p.	percentage point
PSE	Prague Stock Exchange
RM-S	RM-System
RPSN	Annual Percentage Rate of Charge (Roční procentní sazba nákladů)
Sec.	Security
SPAD	Systém pro podporu trhu akcií a dluhopisů (System for Support of the Share and Bond Markets), PSE trading system
TB	Treasury bills
TV	Target value
USA	United States of America
USD	International currency code of US dollar
VAT	Value added tax



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APPENDIX 1: FINANCIAL MARKET LEGISLATION

The Czech and EC legislation covering financial markets has undergone the below stated amendments and changes in 2007:

1.1. Cross-sectoral regulations in the sphere of financial markets

1) *European legislation and other initiatives published in 2007:*

- **Directive 2007/44/EC** of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector (published on 19/1/2007).
- **Draft strategy** of the European Commission for retail financial services regulation, published in a form of the so-called **Green Paper on Retail Financial Services in the Single Market** of 2 May 2007
- **Commission Consultation Paper** on different regulation of alternative retail investment products of 26 October 2007. The paper aims to “level” the regulatory framework for certain mutually replaceable financial products, e.g. cash-value insurance, structured products, collective investment unit trusts.

2) *Pending European legislation (including legislation published after 31/12/2007) and other initiatives of the European Commission:*

- **Directive on credit agreements for consumers and repealing Directive 87/102/EEC.** Approved by the Transport, Telecommunications and Energy Council on 7 April 2008. The Directive has not been published in the Official Journal so far. Members will have 2 years for transposition thereof into their national law systems, i.e. the Directive will be applicable in 2010. The proposed regulation aims to create conditions for a common internal market in consumer credit, provide high level of consumer protection and make the Community regulation more specific.

3) *Acts, which took effect in 2007:*

- Act No. 120/2007 Coll. amending certain Acts with respect to stipulation of capital requirements on banks, savings and loan associations, securities dealers and electronic money institutions – transposition of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions (in effect from 1/7/2007).
- **Act No. 160/2007 Coll. amending certain Acts in the sphere of consumer protection.** This Act took effect on 2. 7. 2007. Into Act No. 6/1993 Coll., on the Czech National Bank, as amended, a provision of s. 44a was inserted resulting from the national transposition of Regulation (EC) No 2006/2004 of the European Parliament and of the Council on cooperation between national authorities responsible for the enforcement of consumer protection laws (the Regulation on consumer protection cooperation), which explicitly confirms jurisdiction of the CNB as a supervisory authority in the area of the so-called distance marketing (within the meaning of Directive 2002/65/EC of the European Parliament and of the Council concerning the distance marketing of consumer financial services). The Act should facilitate cooperation of the CNB with foreign authorities supervising the distance marketing in financial services, particularly with respect to information exchange and application of enforcement measures.

4) *Pending Acts (including Acts already adopted, which have taken effect or will take effect after 31/12/2007):*



- **Legislative intent of an Act to regulate supervision over the financial market.** The basic aim is a consistent legal regulation of procedures of the Czech National Bank upon execution of supervision in the financial market. It is another step linked to integration of supervisory functions into the Czech National Bank, which occurred in 2006. On 30/4/2008 the legislative intent was published at the MoF's website for consultation purposes. Simultaneously it is distributed under a cross-sectoral comments procedure.
- **Amendment No. 36/2008 to Act No. 634/1992 Coll., on consumer protection,** transposition of Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market. This amendment changed also Act No. 6/1993 Coll., on the Czech National Bank, as amended. The Czech National Bank therefore exercises supervision of compliance with prohibition of unfair commercial practices in case that such practices are committed by entities otherwise subject to the CNB's supervision.

5) Secondary legislation:

- **Decree No. 123/2007 stipulating the prudential rules for banks, credit unions and investment and securities dealers** – transposition of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions (in effect from 1/7/2007).

1.2. Legislation in the sphere of capital markets

1) European legislation and other initiatives published in 2007:

- **Measure implementing** Directive 2004/109/EC on transparency (on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC).
- **Commission Regulation** (EC) No 211/2007 of 27 February 2007 amending Regulation (EC) No 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards financial information in prospectuses where the issuer has a complex financial history or has made a significant financial commitment (published 28/2/2007).
- **Commission Directive** 2007/14/EC of 8 March 2007 laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (published 9/3/2007).
- **Commission Directive** 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for Collective investment in transferable securities (UCITS) as regards the clarification of certain definitions (published 20/3/2007).
- **Commission Recommendation** 2007/657/EC of 11 October 2007 on the electronic network of officially appointed mechanisms for the central storage of regulated information referred to in Directive 2004/109/EC of the European Parliament and of the Council (published 5/7/2007).
- **Commission consultation proposal** on review of national rules for private placements of 20/4/2007
- **Published results of consultations** of the Commission regarding rules for provision of investment services in the area of commodity and exotic derivatives specified by MiFID 2004/39 and CAD 2006/49 of 14/8/2007



- **Commission consultation proposal** on amendment to Directive 85/611/EEC (UCITS) of 22/3/2007

2) Pending European legislation (including legislation published after 31/12/2007) and other initiatives of the European Commission:

- none

3) Acts, which took effect in 2007:

- none

4) Pending Acts (including Acts already adopted, which have taken effect or will take effect after 31/12/2007):

- **Act No. 29/2008 Coll.**, amending **Act No. 256/2004 Coll., on capital market undertakings**, as amended, in order to amend the claim for refund from the Guarantee Fund of Dealers in Securities (in effect from 12/2/2008).
- **Amendment to Act No. 256/2004 Coll., on capital market undertakings**, as amended **and to other related Acts** – transposition of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, as amended by Directive 2006/31/EC of the European Parliament and of the Council (MiFID) and Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive. Government bill submitted to the Parliament on 12/2/2008, anticipated effect of the amendment since the middle of this year.
- **Amendment to Act No. 256/2004 Coll., on capital market undertakings**, as amended, **and to Act No. 189/2004 Coll., on collective investments**, as amended, **and other related Acts** – transposition of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Commission Directive 2007/14/EC of 8 March 2007 laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector and Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions. The amendment will be submitted to the government by the middle of 2008.

5) Secondary legislation:

- Decree No. 59/2007 Coll., on types of trading activities of securities dealers carried out through a broker, on broker's specialisations and on broker's examinations (in effect from 15/4/2007).
- Decree No. 92/2007 Coll., amending Decree No. 536/2004 Coll., implementing certain provisions of the Act on business activities on the capital market in the area of protection against market abuse (in effect from 1/5/2007).
- Decree No. 115/2007 Coll., stipulating the details for fulfilling the duties of a depository of collective investment fund (in effect from 15/7/2007).
- Decree No. 123/2007 Coll., stipulating the prudential rules for banks, credit unions and securities dealers (in effect from 1/7/2007).



- Decree No. 240/2007 Coll., amending Decree No. 264/2004 Coll., on form and manner of communicating annual report and half-yearly report of issuer of listed security and on manner of fulfilling disclosure duty regarding share in voting rights, as amended by Decree No. 458/2004 Coll. (in effect from 1/10/2007).
- Decree No. 241/2007 Coll., amending Decree No. 603/2006 Coll., on disclosure duties of collective investment fund and investment company (in effect from 1/10/2007).
- Decree No. 242/2007 Coll., amending Decree No. 605/2006 Coll., on certain disclosure duties of a securities dealer (in effect from 1/10/2007).
- Decree No. 604/2006 Coll., on the use of techniques and instruments for effective management of the assets of a standard fund and of a special fund which collects money from the public (in effect from 1/1/2007).
- Decree No. 605/2006 Coll., on certain disclosure duties of a securities dealer (in effect from 1/1/2007).

1.3. Legislation in the sphere of banking, building savings schemes and cooperative banks

1) European legislation and other initiatives published in 2007:

- **Directive** of the European Parliament and of the Council on payment services in the internal market amending Directives 97/7/EC, 2000/12/EC and 2002/65/EC. The Directive was published in the Official Journal on 5/12/2007 under number 2007/64/EC. The Directive must be transposed until 1/11/2009.

2) Pending European legislation (including legislation published after 31/12/2007) and other initiatives of the European Commission:

- Amendment to Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions
- Amendment to Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions
- Amendment to Regulation 2560/2001 on payments in euro

3) Acts, which took effect in 2007:

- none

4) Pending Acts (including Acts already adopted, which have taken effect or will take effect after 31/12/2007):

- **Draft Act amending Act No. 2/1969 Coll., on establishment of ministries and other central government authorities of the Czech Republic, as amended, and Act No. 6/1993 Coll., on the Czech National Bank, as amended.** On 16/4/2008 the draft act will be discussed by the government. It should take effect on the 15th day after publication thereof.
- **Draft Act on termination of guarantee fund of cooperative banks.** The draft should be discussed at the 30th session of the Parliament. It should take effect on the date of publication.
- **Draft Act amending Act No. 21/1992 Coll. on banks with respect to acquisition and increases of qualified interests.** It should take effect not later than on 21/3/2009.
- **Draft Act on payment services.** It should take effect not later than on 1/11/2009.
- **Draft Act amending certain Acts with respect to adoption of the Payment Services Act.** It should take effect not later than on 1/11/2009.
- **Act amending Act 254/2004 Coll., on restriction of cash payments and on the amendment to Act No. 337/1992 Coll., on administration of taxes and charges, as amended.** First reading of the bill submitted by a member of Parliament is on the



agenda of the 28th session of the Parliament. The Act should take effect on the date of publication.

- **Act on certain measures against money laundering and financing of terrorism** and Act amending certain Acts in relation to adoption of Act on certain measures against money laundering and financing of terrorism. On 1/2/2008 the draft was discussed in the first reading by the Parliament.

5) **Secondary legislation:**

- Decree No. 47/2007 Coll., of 5/9/2007, setting certain requirements on management and controlling systems of banks and savings and credit unions.
- Decree No. 139/2007 Coll. of 31/5/2007, regulating the supporting documents proving the trustworthiness and experience of persons in executive managerial positions of a financial holding entity.
- Decree No. 123/2007 Coll., of 15/5/2007, stipulating the prudential rules for banks, credit unions and securities dealers.

1.4. **Legislation in the sphere of insurance and supplementary pension insurance**

1) **European legislation and other initiatives published in 2007:**

2) **Pending European legislation (including legislation published after 31/12/2007) and other initiatives of the European Commission:**

- Draft Directive on access to insurance and reinsurance business and execution thereof, Solvency II (the draft recodifies insurance industry directives and implements new rules for solvency calculations).
- Publication of comparative analysis of guarantee schemes in insurance industry within EU elaborated by Oxera in November 2007 (January 2008).

3) **Acts, which took effect in 2007:**

- none

4) **Pending Acts (including Acts already adopted, which have taken effect or will take effect after 31/12/2007):**

- **Draft Act amending Act No. 340/2006 Coll., on activities of occupational pension scheme institutions from EU Member States in the Czech Republic** and amending Act No. 48/1997 Coll., on public health insurance and amendments and supplements to certain Acts, as amended. It should take effect on the date of publication. The bill is discussed by the Parliament of the Czech Republic in 3rd reading.
- **Act No. 137/2008 Coll.** of 20/3/2008, amending Act No. 168/1999 Coll., on motor third-party liability insurance and amendments to certain related Acts (**Motor Third-Party Liability Insurance Act**), as amended, Act No. 363/1999 Coll., on insurance (Insurance Act), as amended, Act No. 56/2001 Coll., on conditions for road traffic and amendment to Act No. 168/1999 Coll., on motor third-party liability insurance and amendments to certain related Acts (Motor Third-Party Liability Insurance Act), as amended by Act No. 307/1999 Coll., as amended, and Act No. 48/1997 Coll., on public health insurance and amendments and supplements to certain Acts, as amended. The Act shall come in effect on 1/6/2008 except for the provisions of Article I par. 73, with respect to s. 24 (1) and par. 89 with respect to s. 24c, which will come into effect on 1/1/2009.
- **Draft Insurance Act**, transposing Directive 2005/68/ES on reinsurance. The draft is discussed by the Legislative Committee of the government. The Act should take effect from 1/1/2009.



5) Secondary legislation:

- Draft Decree amending Decree of MoF No. 205/1999 Coll., implementing Act No. 168/1999 Coll., on motor third-party liability insurance and amendments to certain related Acts (Motor Third-Party Liability Insurance Act), as amended by Decree No. 429/2002 Coll. and Decree No. 309/2004 Coll. The Decree should take effect from 1/6/2008.
- Decree No. 93/2007 Coll. of 19/4/2007, on disclosure obligation of pension funds for purposes of supervision by the Czech National Bank



APPENDIX 2: SUPPLEMENTARY TABLES

Table 7.1: Average interest rate

as at 31/12 (%)		2003	2004	2005	2006	2007
Deposits	households and minor entrepreneurs	1.40	1.33	1.24	1.23	1.34
	non-financial businesses	1.09	1.14	0.99	0.97	1.17
Loans	to households and minor entrepreneurs	8.29	8.09	7.53	7.46	8.06
	for consumption	13.20	14.86	14.36	14.26	14.99
	for real estate	6.70	6.15	5.57	5.51	6.11
	to non-financial businesses	4.57	4.51	4.27	4.22	4.57

Source: CNB - ARAD

Table 7.2: Loans by type

as at 31/12 (CZK bn)	2005	2006	2007	Year-on-year change	
				abs.	(%)
Overdrafts and debit balances of current accounts	85.74	104.93	140.27	35.34	33.68
Consumer loans (excl. overdrafts and debit balances of current accounts)	79.90	101.70	128.90	27.20	26.75
Housing loans excl. mortgages	118.77	142.82	191.17	48.35	33.86
Mortgage loans for residential properties	202.89	288.70	398.24	109.54	37.94
Mortgage loans for non-residential properties	9.53	12.79	21.50	8.71	68.15
Other loans	261.90	278.40	310.30	31.90	11.46
Investment loans	222.40	250.00	324.30	74.30	29.72
Bridge loans	4.15	2.15	1.44	-0.71	-32.94
Trade receivables	40.71	40.20	37.54	-2.66	-6.61
Total	1 025.99	1 221.67	1 553.66	331.99	27.17

Source: CNB - ARAD



Table 7.3: Basic indicators of building savings development in the Czech Republic

as at 31/12		2002	2003	2004	2005	2006	2007
New building savings contracts	number	1 293 890	2 097 338	314 650	430 233	516 385	579 730
	change (%)	.	62.1	-85.0	36.7	20.0	12.3
Average target value for new building s. contracts with private individuals	value (CZK th.)	147	201	223	228	236	285
	change (%)	.	36.7	11.1	2.3	3.5	20.8
Building savings contracts in savings phase⁴⁷	number	4 870 620	6 300 831	5 899 300	5 573 874	5 297 522	5 132 595
	change (%)	.	29.4	-6.4	-5.5	-5.0	-3.1
Awarded state contribution	value (CZK th.)	11	13	15	16	16	15
	change (%)	.	19.9	15.7	4.9	-2.0	-5.0
Average state contribution awarded per building savings contract for the relevant year	value (CZK th.)	3 138	3 159	3 256	3 242	0	n/a
	change (%)	.	0.7	3.1	-0.4	0.0	n/a
Saved amount⁴⁴	value (CZK th.)	180	237	287	329	360	385
	change (%)	.	31.4	21.2	14.6	9.4	6.9
Loans total ⁴⁴	number	568 920	685 740	786 483	857 875	900 653	942 944
of which: building saving schemes	number	420 929	488 850	549 698	582 867	587 501	580 352
bridging⁴⁸	number	147 991	196 890	236 785	275 008	313 152	362 592
	change (%)	.	20.5	14.7	9.1	5.0	4.7
Loans total ⁴⁴	value (CZK th.)	46.3	63.6	84.2	108.1	135.5	179.3
of which: building saving schemes	value (CZK th.)	21.9	25.1	28.7	31.8	35.1	38.9
bridging⁴⁵	value (CZK th.)	24.4	38.5	55.4	76.3	100.4	140.4
	change (%)	.	37.3	32.4	28.4	25.3	32.4
Loans total / saved amount	ratio (%)	25.7	26.9	29.3	32.8	37.6	46.6

Source: MoF

⁴⁷ Closing balance of the period.

⁴⁸ Loans under s. 5 (5) of Act no. 96/1993 Coll., on building savings schemes and state support for building savings schemes, as amended.



Table 7.4: Net assets in trusts domiciled abroad, by distributors

as at 31/122007	Net assets (CZK bn)	Share in total value (%)	Year-on- year change (%)
Československá obchodní banka	79.62	56.04	29.98
Česká spořitelna	19.62	13.81	47.15
ING Bank	18.62	13.11	6.09
Conseq Investment Management	6.12	4.31	39.79
Raiffeisenbank	3.14	2.21	55.79
Pioneer Investments	2.98	2.10	-30.49
HSBC Bank	2.80	1.97	17.02
Komerční banka	2.49	0.00	0.00
Citibank	2.44	1.72	-12.79
HVB Bank Czech Republic	2.24	1.58	-43.47
Atlantik - Kilcullen Asset Management	1.10	0.78	149.16
Other	0.88	0.62	-19.17
Total	142.07	100.00	23.64

Source: AKAT

Table 7.5: Net assets of domestic trusts, by management companies

as at 31/122007	Net assets (CZK bn)	Share in total value (%)	Year-on- year change (%)
Investiční společnost České spořitelny	80.97	46.77	8.10
Investiční kapitálová společnost KB	48.71	28.14	13.69
ČSOB investiční společnost	11.09	6.41	-11.57
Pioneer česká investiční společnost	11.03	6.37	9.61
ČP INVEST investiční společnost	6.35	3.67	35.71
J&T ASSET MANAGEMENT, IS	1.71	0.99	3.83
AXA investiční společnost a.s.	1.21	0.70	-
REICO investiční společnost ČS, a.s.	1.21	0.70	-
AKRO investiční společnost	0.85	0.49	3.93
AIG Funds Central Europe správ.spol.	0.16	0.09	-15.51
Other	9.82	5.67	-
Total	173.11	100.00	18.02

Source: AKAT



Table 7.6: Allocation of assets of pension funds

as at 31/12 (market prices, CZK bn)	2003	2004	2005	2006	2007	Share in 2007 (%)
Bonds	60.29	69.08	89.36	109.97	119.50	73.74
Treasury bills	8.00	18.08	9.74	5.54	6.40	3.95
Shares and unit certificates	3.93	6.40	9.23	14.55	17.47	10.78
Money and other assets	9.84	8.51	15.08	12.47	18.68	11.53
Total	82.06	102.07	123.41	142.53	162.05	100.00

Source: APF Czech Republic



Table 7.7: Placement of technical reserves

as at 31/12 (CZK bn)	2006			2007			change abs.			year-on-year change		
	LA	NLI	total	LA	NLI	total	LA	NLI	total	LA	NLI	total
Bonds issued by Member State or its central bank and bonds guaranteed by Member State	80.02	18.17	98.19	85.65	21.63	107.27	5.63	3.45	9.09	7.04	19.01	26.05
Bonds issued by banks and similar credit institutions of Member States	11.02	4.07	15.09	12.68	4.05	16.73	1.66	-0.02	1.64	15.07	-0.50	14.57
Listed bonds issued by commercial companies	16.97	5.96	22.92	17.09	6.96	24.05	0.12	1.01	1.13	0.73	16.88	16.15
Treasury bills	1.02	4.52	5.54	3.30	5.81	9.11	2.29	1.29	3.57	224.79	28.53	253.32
Listed municipal bonds	2.07	0.89	2.96	1.95	1.00	2.94	-0.13	0.11	-0.02	-6.06	12.40	6.34
Credits, loans and other receivables	0.23	5.54	5.77	0.00	5.68	5.68	-0.23	0.14	-0.09	-99.42	2.60	-96.82
Bills of exchange guaranteed by bank surety or bank aval	0.02	0.11	0.12	0.14	0.12	0.27	0.13	0.02	0.14	697.30	16.90	714.20
Real estate on the territory of Member States	4.72	2.07	6.79	0.91	1.94	2.85	-3.80	-0.14	-3.94	-80.62	-6.60	-87.22
Mortgage bonds	9.84	8.79	18.63	13.38	8.78	22.16	3.54	-0.01	3.53	35.96	-0.10	35.86
Listed shares of stock	6.62	4.02	10.65	8.46	4.81	13.27	1.84	0.79	2.62	27.72	19.55	47.27
Deposits and deposits confirmed by deposit certificate, deposit receipt or similar document	9.93	6.64	16.57	10.01	7.96	17.97	0.08	1.32	1.40	0.81	19.85	19.04
Works of art	0.00	0.11	0.11	0.00	0.11	0.11	0.00	0.00	0.00	-	-0.01	-0.01
Bonds issued by EIB, ECB, EBRD or IBRD	14.46	1.60	16.06	12.79	1.26	14.05	-1.67	-0.34	-2.01	-11.53	-21.43	-32.96
Securities issued by collective investment unit	19.62	3.11	22.73	25.97	3.00	28.96	6.35	-0.12	6.23	32.38	-3.79	28.59
Foreign securities traded on regulated market of OECD states	6.89	4.32	11.21	5.61	2.12	7.73	-1.29	-2.20	-3.49	-18.69	-50.94	-69.63
Loans to insured persons	0.03	0.00	0.03	0.03	0.00	0.03	0.00	0.00	0.00	7.84	-	7.84
Derivatives	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-496.80	-496.80
Receivables from reinsurance companies	0.75	15.92	16.67	0.72	17.54	18.27	-0.03	1.62	1.60	-3.50	10.19	6.69
Financial placements total	184.20	85.84	270.03	198.70	92.75	291.45	14.50	6.92	21.41	7.87	8.06	16.93

Source: CNB