REPORT ON FINANCIAL MARKET DEVELOPMENTS IN 2017

August 2018

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The data presented in this report were obtained from the specified sources in April and in May 2018.

SUMMARY OF DEVELOPMENTS IN 2017

Macroeconomic Situation

Gross domestic product continued to grow for the fourth consecutive year and its pace even accelerated to 4.4% year-on-year, which is 2 pp higher than the EU average. The main pro-growth factors were household consumption, foreign demand and investment activity. In terms of price development, the rate of growth of the average consumer price level was closer to the 2% inflation target, standing at 2.4%. The unemployment rate was 2.9% and was the lowest across the EU, well below the EU average (7.6%).

Monetary Policy and Foreign Exchange Market

In the first half of 2017, the CNB ended the unilateral exchange rate commitment. This tool was used by the CNB since November 2013 and the volume of foreign exchange interventions for the whole period reached EUR 75.9 billion (i.e. about CZK 2.05 trillion). In the second half of the year, for the first time since 2008, monetary policy rates increased twice. Two-week repo rate at the end of the year was 0.5% p.a.

Placement of Funds in the Financial Market

The total volume of funds placed on the financial market increased by 9.7% to CZK 6.13 trillion, which represents the highest relative and absolute year-on-year increase since 2012. The largest absolute growth was recorded again in deposits in credit institutions (by CZK 319.7 billion), which remained the most significant item at 68.4%. As in the previous five years, the volume of funds placed in investment funds increased most in year-on-year relative terms (by 15.5%).

Structure of Household Savings

Total household savings within the intermediary financial market products rose by 7.7% to CZK 3.49 trillion. Since 2012, the highest absolute year-on-year growth was recorded in demand deposits and investment funds, which increased their share in total household savings in the last six years (to 50.3% and 12.4%, respectively). On the contrary, savings in term deposits and building savings continued to decline. Growth in the popularity of the capital market is illustrated by a slight change in the allocation of household savings in banking products (from 71.8% in 2012 to 67.8% in 2017).

Household Indebtedness

Household indebtedness grew by 7% year-on-year to nearly CZK 1.6 trillion. Loans for residential property have consistently had the most significant share (more than 72% at the end of 2017). In spite of this increase, the debt-to-GDP ratio of domestic households relative to the rest of the EU remains relatively low (31.3% of GDP).

Financial Market Entities

There were only slight changes in the number of financial market participants, without any major impact on its overall structure. In the dominant sector of credit institutions, Banka CREDITAS, a.s. and three branches of foreign banks, including one from a non-EU member state (Industrial and Commercial Bank of China Limited, Prague Branch) were granted a licence to operate. In Q1 2017, the CNB launched a process of “re-licencing” of non-bank consumer loan providers, which aimed to significantly reduce the number of entities. The Financial Arbitrator has expanded its scope of competence to disputes concerning non-payment accounts and savings books.

Banking Sector

The banking sector again recorded a positive development in a number of indicators, confirming its stability – the total capital ratio (19.3%) remained well above the regulatory minimum and was up by 4 pp from the beginning of 2012. On the other hand, the non-performing loans ratio fell to the lowest level (4%) in 8 years. The total volume of assets of the banking sector, including building societies, grew by more than a sixth and reached a record CZK 7.07 trillion. The pre-tax profit of the sector increased slightly (by 3.3%) and also posted a record value of CZK 90.8 billion.

Interest Rates

The increase in the CNB’s monetary policy rate to 0.5% did not materially reflect in an increase in average market interest rates on both client deposits and loans, and these rates continued to stay low. As for deposits, the average interest paid on deposits of non-financial corporations continued to be low (a decline to 0 %) compared to

household deposits (a decrease to 0.4 %). Average interest rates on household loans declined to 4.1%, while that of non-financial corporations remained unchanged (2.6%).

Deposits and Loans

The volume of client bank deposits increased year-on-year by 10.7 % to CZK 4.2 trillion. Client bank loans also grew, but at a slower pace (by 4.6%), reaching CZK 3.1 trillion at the year end. In the medium term (from the end of 2012), client deposits grew by 33% and loans by 31%. Since the end of 2009, the banking sector has maintained the ratio of client deposits to client loans above 120%.

Mortgage Market

Activity on the mortgage market was again high, although some aggregate indicators showed a slight year-on-year decline. The volume of newly granted mortgage loans (including refinanced and re-fixed mortgage loans), containing residential and non-residential property, was only 1.5% lower than in the record year 2016 and reached CZK 413.2 billion. New mortgage loans for residential property, on the other hand, grew by almost 4% year-on-year. The outstanding volume of mortgage loans rose again, by nearly 8% to almost CZK 1.5 trillion. The most frequent interest rate fixation on new mortgage loans continued to be between 1 and 5 years, involving 52% of loans. Individuals, as traditionally the predominant category of mortgage loan borrowers, increased their indebtedness through residential mortgage loans by 9.7 % to almost CZK 1.04 trillion.

Building Savings Banks

In the building savings bank sector, 370,000 new contracts were concluded, which was less than in 2016 and well below the long-term average. This decline has compounded the ongoing decline in the total number of contracts since 2003; the building societies administered 3.2 million contracts at the end of 2017. The downward trend continued for the fifth year also in the total amount saved, which was CZK 358.9 at the end of 2017. The volume of paid state contribution also decreased to CZK 3.9 billion. In terms of total loans granted by the building savings bank sector, after a six-year period of decline, the volume of building savings increased by 2.1% to CZK 245.7 billion. 99% of new loans, which amounted to CZK 55.3 billion (a year-on-year increase of 15.6%), were made up of bridging loans. The development trend in savings and loans in the sector was also reflected in increased loan-to-savings ratio, namely by 2.1 pp to 68.5%, which was the highest recorded value in the history of building savings in the Czech Republic.

Credit Unions

There were 10 active savings and credit unions during the year. The transformation of the largest credit union into a bank led to a year-on-year decrease in the sector's balance of 40.2% to CZK 30.8 billion. Deposits decreased by 35% year-on-year to CZK 19.0 billion and loans decreased by 33.8% to CZK 14.9 billion. After adjusting the data for the transformed credit union, the whole sector showed very modest but steady growth since 2012. The share of non-performing loans to total liabilities increased by 0.9 pp to 20.3% year-on-year. However, the overall capital ratio improved by 2.8 pp to 19%.

Non-Bank Financing Providers

The sector of non-bank financing providers reported for the second year an increase of their balance sheet by more than 5%, but this dynamics was lower than in the banking sector. However, this sector has consistently accounted for less than equivalent of 10% of the balance sheet size of the banking sector.

Regulated and OTC Markets

The Czech main stock index, the PX, rose during the year by 17.0% and closed at 1,078 points at the end of the year, the highest value since 2011. The volume of stock exchange transactions declined again (by 15.6% to CZK 148.5 billion), while the volume of over-the-counter trades increased significantly (by 33.5% to CZK 550.4 billion), also due to speculation related to the termination of the unilateral exchange rate commitment.

Investment Firms and Asset Management

The trading volume of the investment firms increased by 144.2% year-on-year to CZK 195.7 trillion, i.e. to a historically highest value. This growth was mainly due to the increase in banking investment firms, mainly in transactions on own account (by

176.6% to CZK 85.2 trillion), and to a lesser extent in transactions on behalf of clients (by almost 300% to CZK 17.7 trillion). The main driver was speculation in connection with the termination of the unilateral exchange rate commitment. The volume of client assets rose to the highest value in the last six years (to CZK 4.6 trillion); this also applied to the volume of funds under management (to CZK 846 billion). In terms of the allocation structure, the most significant part consisted of debt securities and collective investment securities. The volume of assets entrusted to asset managers also increased, namely by 7.0% to a total of CZK 1.38 trillion.

Investment Funds

The volume of funds in collective investment funds increased by 12.4%. By the end of 2017, CZK 483.5 billion was placed in these funds, of which CZK 280.2 billion in national funds and CZK 203.3 billion in foreign funds. In absolute terms, most significant growth of funds was seen in mixed, stock and real estate mutual funds and funds of funds. On the contrary, declines were seen in money market funds, structured funds and, most of all, bond funds. The largest share of managed funds (64%) was represented by mixed and bond funds. Also, qualified investors funds reported a growth of funds under management, namely by 28.8% to CZK 107.6 billion.

Insurance Companies

The insurance sector managed to reverse the two-year downward trend in gross premium written, which grew by 2.5% year-on-year and reached almost CZK 151 billion. This was due to non-life insurance rising by 6.4% to CZK 93.3 billion. On the contrary, life insurance declined by 3.4% to CZK 57.6 billion, continuing a downward trend that began in 2013. The moderate increase in the total claims in non-life insurance by 7%, together with limited opportunities for investment appreciation, was reflected in the year-on-year decline in pre-tax profit of 19.9% to CZK 10.6 billion.

Supplementary Pension Insurance and Supplementary Pension Savings

Participants’ assets in transformed and participating funds in pension Pillar 3 increased by 8.5% to CZK 413.9 billion. The number of participants dropped by 69,000 to 4.47 million, which represents the smallest reduction since the post-reform year of 2013, which triggered a steady outflow of people involved in the pension Pillar 3. The average monthly contribution made by participants increased to CZK 624 in supplementary pension insurance and to CZK 776 in supplementary pension savings. The share of participants with employer’s contribution increased to 20.9% and the average monthly contribution of the employer also increased, both for transformed funds (to CZK 837) and for participating funds (to CZK 885). The total direct state support paid to Pillar 3 participants increased to CZK 6.9 billion.

Financial Market Legislation

In 2017, the new Act on Payments, an amendment to the Capital Market Business Act, and an amendment to the Motor Third-Party Liability Insurance Act were adopted. European-level priorities continued to include risk mitigation in the EU banking sector, when the text of the five legislative proposals published in November 2016 was under negotiation throughout the year. In June 2017 a proposal for a Regulation on a Pan-European Personal Pension Product was submitted and in September 2017 a proposal for a revised European System of Financial Supervision was submitted. Important securitisation- and prospectus-related regulations on capital market development were also published during the year.

1 MACROECONOMIC SITUATION AND EXTERNAL DEVELOPMENTS

1.1 Macroeconomic Situation

The economic growth of the Czech Republic, measured by the year-on-year change in real gross domestic product, accelerated to 4.4% in 2017. The Czech economy thus outperformed the EU average by 2 pp. The main pro-growth factor was household consumption, which was supported mainly by labour market developments, followed by foreign demand and investment activity in the second half of the year. With exceptions, the selected countries of the world increased their GDP growth rate (Table 1.1). The major economies, i.e. the USA, the EU and China, also achieved higher year-on-year growth than in 2016. The Central European countries saw a significantly positive development, with Poland, the Czech Republic and Hungary reporting the highest growth among these countries.

Table 1.1: Annual GDP growth

Selected countries (%)	2012	2013	2014	2015	2016	2017	Year-on-year change (pp)
United States	2.2	1.7	2.6	2.9	1.5	2.3	0.8
European Union (28)	**-0.4**	**0.3**	**1.8**	**2.3**	**2.0**	**2.4**	**0.4**
Eurozone (19)	-0.9	-0.2	1.3	2.1	1.8	2.4	0.6
China	7.9	7.8	7.3	6.9	6.7	6.9	0.2
Japan	1.5	2.0	0.4	1.4	0.9	1.7	0.8
Germany	0.5	0.5	1.9	1.7	1.9	2.2	0.3
United Kingdom	1.5	2.1	3.1	2.3	1.9	1.8	-0.1
Russia	3.7	1.8	0.7	-2.8	-0.2	1.5	1.7
Poland	1.6	1.4	3.3	3.8	3.0	4.6	1.6
Austria	0.7	0.0	0.8	1.1	1.5	2.9	1.4
Czech Republic	**-0.8**	**-0.5**	**2.7**	**5.3**	**2.6**	**4.4**	**1.8**
Hungary	-1.6	2.1	4.2	3.4	2.2	4.0	1.8
Slovakia	1.7	1.5	2.8	3.9	3.3	3.4	0.1

Source: Eurostat, IMF, OECD, NBS China, MoF

Note: Sorted by nominal GDP in 2017.

The domestic labour market situation is affected by the consistent economic growth (Table 1.2). Since 2013, the general unemployment rate has declined gradually to 2.9 % in 2017. The number of long-term unemployed persons was only 40 thousand in Q4 2017. Therefore, soaring labour market pressure was not only reflected in the dynamic wage growth, but is now a certain barrier to further economic growth. In terms of international comparison, the Czech Republic reported the lowest unemployment rate in the EU, well below the EU average of 7.6%.

Table 1.2: Basic macroeconomic and fiscal indicators of the Czech economy

Indicators	2012	2013	2014	2015	2016	2017
Gross domestic product (real growth in %)	-0.8	-0.5	2.7	5.3	2.6	4.4
Gross capital formation (pp)	-1.1	-1.3	2.1	3.4	-0.6	1.2
Consumption (pp)	-1.0	0.8	1.1	2.2	2.1	2.2
Foreign balance (pp)	1.3	0.1	-0.5	-0.2	1.2	1.0
Unemployment rate[1] (% of average for period)	7.0	7.0	6.1	5.1	4.0	2.9
General government balance (% GDP)	-3.9	-1.2	-2.1	-0.6	0.7	1.6
General government debt (% GDP)	44.5	44.9	42.2	40.0	36.8	34.6

Source: CZSO, MLSA, Eurostat

[1] Measured by the Labour Force Survey Method.

The general government sector performance achieved a record surplus of 1.6 % of GDP in 2017 (Table 1.2) The improvement was to a significant degree due to the general government sector revenues, with tax revenues including social security contributions rising by 7.7%. The record surplus was also reflected in total debt, which fell by 2.2 pp year-on-year to 34.6% of GDP.

Even in terms of external relation indicators (Table 1.3), the Czech Republic achieved a current account surplus of 1.1% of GDP in 2017. The balance of goods and services has exceeded the deficit of primary and secondary incomes for the fourth consecutive year. This deficit was influenced mainly by income from direct foreign investment in the form of dividends and reinvested earnings. The capital account, which is influenced by subsidies and payment of funds in relation to the EU budget, ended at 0.9 % of GDP in 2017. The financial account was in surplus from 2012 to 2017, and it was 2.3 % of GDP at the end of 2017.

Table 1.3: Basic indicators of external financial relations

Indicators	2012	2013	2014	2015	2016	2017
Current account (CZK bn.)	-63.3	-21.8	7.9	11.3	74.2	54.2
of that: balance of goods and services	201.4	237.3	275.6	266.1	353.3	362.9
of that: balance of primary and secondary income	-264.7	-259.1	-267.7	-254.8	-279.1	-308.8
Capital account (CZK bn.)	53.0	82.4	32.3	101.9	53.5	46.5
Financial account (CZK bn.)	11.7	68.3	63.6	175.3	116.9	117.1
Current account balance to GDP (%, current prices)	-1.6	-0.5	0.2	0.2	1.6	1.1
Capital account balance to GDP (%, current prices)	1.3	2.0	0.7	2.2	1.1	0.9
Financial account balance to GDP (%, current prices)	0.3	1.7	1.5	3.8	2.4	2.3

Source: CNB, MoF

The price level, measured by the Harmonized Index of Consumer Prices, increased by 2.4% in 2017, the most in the last five years. The fastest growing segment was food, housing, energy and transport. The central bank responded to this by abandoning the unilateral exchange rate commitment in the first half of the year, and in the second half of the year it made two increases in monetary policy rates (see Chapter 1.2). In international comparison (Table 1.4), the annual average of consumer prices development in the Czech Republic was above the EU and Eurozone levels, which were 1.7 % and 1.5 %, respectively.

Table 1.4: Harmonised consumer price indices in selected economies

Annual growth rate (%)	2012	2013	2014	2015	2016	2017
United States	2.1	1.5	1.6	0.1	1.3	2.1
European Union (28)	**2.6**	**1.5**	**0.5**	**0.0**	**0.3**	**1.7**
Eurozone (19)	2.5	1.3	0.4	0.0	0.2	1.5
China	2.6	2.6	2.0	1.4	2.0	1.6
Japan	-0.1	0.3	2.8	0.8	-0.1	0.5
Germany	2.0	1.5	0.9	0.2	0.5	1.7
United Kingdom	2.8	2.6	1.5	0.0	0.7	2.7
Russia	5.1	6.8	7.8	15.5	7.0	3.7
Poland	3.6	1.0	0.1	-0.9	-0.7	2.1
Austria	2.5	2.0	1.6	0.9	0.9	2.1
Czech Republic	**3.5**	**1.4**	**0.4**	**0.3**	**0.6**	**2.4**
Hungary	5.7	1.7	-0.2	-0.1	0.4	2.3
Slovakia	3.6	1.4	-0.1	-0.3	-0.5	1.3

Source: OECD

Government bond yields, which reflect the comprehensive perception by investors of the situation, riskiness and other factors of the given economy, saw small growth in almost all cases (Table 1.5). The average yields of 10-year Czech government bonds rose to 1.0% p.a. and saw increased volatility in 2017 in connection with the expectation and the actual termination of the unilateral exchange rate commitment. However, with respect to historical developments, yields on Czech government bonds remain relatively low. Traditionally, the lowest average yields of 10-year government bonds have been reported by Japan and Germany. In the Visegrad Four

countries, there was a slight year-on-year decline in average yields of Hungarian 10-year government bonds to 3.1% p.a. On the other hand, the average yield of Slovak 10-year government bonds grew to 0.9% p.a. and Polish 10-year government bonds grew to 3.4% p.a.

Table 1.5: Yield to maturity of 10-year government bonds

Average in given year (% p.a.)	2012	2013	2014	2015	2016	2017	Year-on-year (bp)
United States	1.8	2.3	2.5	2.1	1.8	2.3	49
Eurozone	**2.2**	**2.0**	**1.4**	**0.6**	**0.2**	**0.4**	**25**
China	3.5	3.9	4.2	3.4	2.9	3.6	70
Japan	0.9	0.7	0.6	0.4	0.0	0.1	10
Germany	1.6	1.6	1.2	0.5	0.1	0.4	23
United Kingdom	1.9	2.3	2.5	1.8	1.2	1.2	-2
Russia	8.0	7.2	9.4	11.4	9.0	7.8	-114
Poland	5.0	4.1	3.5	2.7	3.1	3.4	40
Austria	2.4	2.0	1.5	0.7	0.4	0.6	20
Czech Republic	**2.8**	**2.1**	**1.6**	**0.7**	**0.5**	**1.0**	**53**
Hungary	8.0	6.0	4.9	3.5	3.2	3.1	-17
Slovakia	3.0	2.7	1.9	0.9	0.7	0.9	30

Source: Thomson Reuters, ECB, MoF calculations

Note: The data represent the averages from the monthly closing yield values of the generic 10-year government bond. 10-year Eurozone bonds represent data from the yield curve of government bonds rated AAA.

1.2 Monetary Policy and Foreign Exchange Market

In 2017, there was a series of changes in the Czech Republic's monetary policy. The most significant one was the termination of the unilateral exchange rate commitment in the first half of 2017 (on 6 April 2017). The CNB used this tool for 41 months to ease monetary conditions as another of its monetary-policy instruments. The volume of foreign exchange interventions, more precisely the central bank's transactions for the purpose of maintaining the exchange rate commitment, amounted to EUR 75.9 billion (i.e. approximately CZK 2,049 billion). In the second half of the year, there were two increases in monetary policy rates, for the first time since 2008. First, the repo rate was raised in August from 0.05% to 0.25% and the Lombard rate was raised from 0.25% to 0.50%. Another change occurred in November when the repo rate was increased to 0.50% and the Lombard rate to 1.00% (Table 1.6). These changes were subsequently reflected in interbank interest rates (see Chapter 5).

Monetary policy of foreign central banks was not so eased compared to previous years. In 2017, therefore, there was a gradual normalization. The USA Central Bank (Fed) increased the monetary policy rate three times by a total of 0.75 pp, namely in March, June and December. The Fed has raised the rates several times due to improved estimates of USA economic growth and positive developments in unemployment. At the end of 2017, the key interest rate ranged from 1.25% to 1.50%. The central bank of the United Kingdom (BoE) also increased the interest rates. In November 2017, it raised the key interest rate by 0.25 pp to 0.5%, while maintaining the GBP 10 billion purchase program of corporate bonds and the GBP 435 billion purchase program of government bonds.

The European Central Bank (ECB) did not change its key interest rates in 2017. However, it has made changes to the Asset purchase programme, which the ECB cut by EUR 20 billion in April 2017 to EUR 60 billion. In the second half of the year, the ECB announced an extension of and further adjustment to the parameters of this programme. The programme has been extended by at least 9 months, with the monthly volume of purchased asset amounting to EUR 30 billion as from January 2018. The Japanese Central Bank (BoJ) has continued its Qualitative and Quantitative Easing programme to achieve the 2% inflation target and keep yields of 10-year government bonds close to zero. The key BoJ rate remained unchanged in 2017, standing at -0.1%. The Chinese Central Bank (PBC) did not change its main interest rate and kept it at 4.35%. However, the PBC increased a number of interest rates with shorter maturities (i.e. the repo rate and the medium-term loan

facility). PBC also rather focused on instruments to influence the exchange rate, administrative and regulatory measures on the capital market, etc.

The Russian Central Bank (CBR) responded to the improving state of the economy, more stable Russian ruble development and lower-than-target inflation by lowering all monetary policy rates. The CBR's main interest rate, relating to repo and depo auction instruments and currency swaps, decreased six times from its original 10% to 7.75% by the end of 2017.

In the Visegrad countries, i.e. in the Czech Republic, Slovakia, Poland and Hungary, the monetary policy development was different. The CNB was the only one to increase rates (see above); the other central banks in the region (including the ECB for Slovakia) did not change the main monetary policy rates. In the case of the Polish Central Bank (NBP), the main monetary policy rate remained at 1.5%. However, from 2018, NBP will apply the rate of 0.5% p.a. to minimum reserves. Similarly, the Hungarian Central Bank (MNB) did not change the rates, leaving its main monetary policy rate at 0.9%. In the course of the year, it has lowered the limit of maximum amount of liquidity commercial banks could deposit with the central bank from HUF 750 billion to HUF 500 billion. In addition, MNB has recently introduced an Interest Rate Swap Facility, which will allow commercial banks to exchange floating-interest payments for fixed-interest payments from 2018, as well as a programme designed to buy mortgage-backed securities with a maturity of more than 3 years.

Table 1.6: Central bank's key interest rates[2]

As at 31 Dec (% p.a.)		2012	2013	2014	2015	2016	2017
United States	FED	0.00 - 0.25	0.00 - 0.25	0.00 - 0.25	0.25 - 0.50	0.50-0.75	1.25-1.50
Eurozone	**ECB**	**0.75**	**0.25**	**0.05**	**0.05**	**0.00**	**0.00**
China	PBC	6.00	6.00	5.60	4.35	4.35	4.35
Japan	BoJ	0.00	0.00	0.00	0.00	-0.10	-0.10
United Kingdom	BoE	0.50	0.50	0.50	0.50	0.25	0.50
Russia	CBR	5.25	5.50	17.00	11.00	10.00	7.75
Poland	NBP	4.25	2.50	2.00	1.50	1.50	1.50
Czech Republic	**CNB**	**0.05**	**0.05**	**0.05**	**0.05**	**0.05**	**0.50**
Hungary	MNB	5.75	3.00	2.10	1.35	0.90	0.90

Source: Fed, ECB, PBC, BoJ, BoE, CBR, NBP, CNB, MNB

The developments of exchange rates of the Czech koruna against foreign currencies (selected currencies used in international trade of the Czech Republic or in the region, Table 1.7) were significantly influenced not only by the termination of the CNB's unilateral exchange rate commitment, but also by other key factors. In the vast majority of the cases, CZK appreciated by several percent. In the case of CZK/EUR, the Czech koruna rose to an average of 26.3 CZK/EUR in 2017 (from an average of 27.0 CZK/EUR in 2016). In the course of 2017, the exchange rate hovered at more or less the same values as in 2013, i.e. before the introduction of the unilateral exchange rate commitment, showing appreciation of the Czech koruna.

The United States dollar, which was in continuous decline against the euro in 2017, led to CZK appreciating to 23.4 CZK/USD. In terms of the CZK/USD development, the Czech koruna started appreciating from the termination of the unilateral exchange rate commitment to the euro. The Czech koruna also saw strong appreciation against the Chinese renminbi (by 6% on average to 3.5 CZK/CNY), the Japanese yen (by 7.4% to 20.8 CZK/100 JPY) and the British pound (by 9.2% to 30.1 CZK/GBP). The Czech koruna also appreciated slightly in relation to the Hungarian forint (by 1.9% to 8.5 CZK/100 HUF) and to the Polish zloty (by 0.2% to 6.2 CZK/PLN). The only currency against which the Czech koruna depreciated was the Russian ruble. The exchange rate of CZK/100 RUB in the first half of the year saw the CZK depreciate, but then corrected and started to appreciate. In 2017, therefore, the average exchange rate was 40.1 CZK/100 RUB.

[2] In the case of the Fed these are the federal funds rates; in the case of the ECB, these are the fixed rates of main refinancing operations. In the case of PBC, these are the fixed rates of main refinancing operations. Values for BoJ represent interest rates of the complementary deposit facility. In the case of BoE, these are base rates and in the case of CBR the repo auction interest rates, deposit auction interest rates, and FX swap auction fix-leg rates. Concerning the Visegrad countries, in the case of NBP these are the minimum money market intervention rates, in the case of the CNB the two-week repo rates and in the case of the MNB the three-month deposit rates.

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

Average exchange rate		2012	2013	2014	2015	2016	2017	Year-on-year change (%)
United States dollar	CZK/USD	19.6	19.6	20.7	24.6	24.4	23.4	-4.3
Euro	**CZK/EUR**	**25.1**	**26.0**	**27.5**	**27.3**	**27.0**	**26.3**	**-2.6**
Chinese renminbi	CZK/CNY	3.1	3.2	3.4	3.9	3.7	3.5	-6.0
Japanese yen	CZK/100 JPY	24.6	20.1	19.6	20.3	22.5	20.8	-7.4
British pound	CZK/GBP	31.0	30.6	34.2	37.6	33.1	30.1	-9.2
Russian ruble	CZK/100 RUB	63.0	61.4	54.9	40.6	36.6	40.1	9.5
Polish złoty	CZK/PLN	6.0	6.2	6.6	6.5	6.2	6.2	-0.2
Hungarian forint	CZK/100 HUF	8.7	8.7	8.9	8.8	8.7	8.5	-1.9

Source: CNB

2 PLACEMENT OF FUNDS IN THE FINANCIAL MARKET

The amount of funds placed on the financial market[3], as can be seen from Table 2.1, has been consistently rising, moreover at an accelerated pace since 2015. Over the course of 2017, it increased by CZK 541.3 billion (9.7%) to approximately CZK 6.13 trillion. This represents the highest relative increase in the monitored period since 2012, when the annual increments ranged between 4% and 8%.

Table 2.1: Placement of funds in the financial market

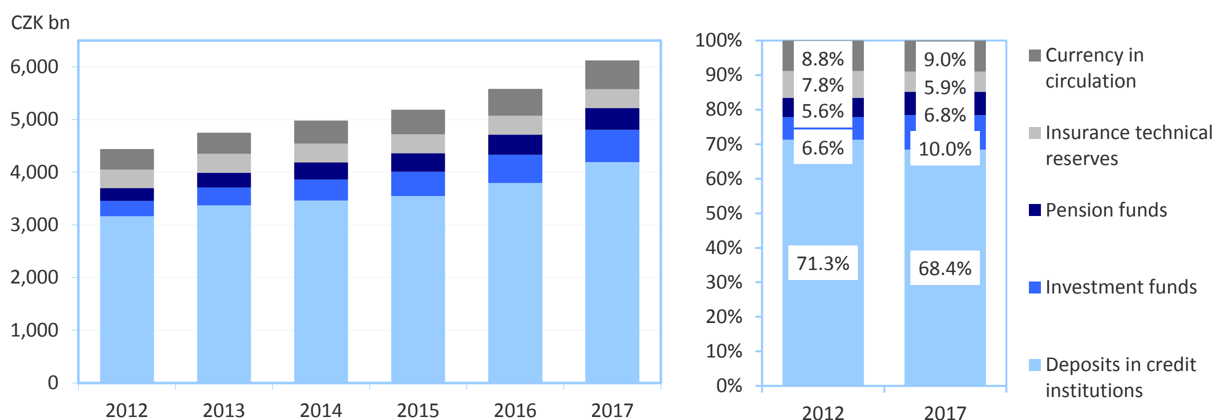
As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Deposits in credit institutions[4]	3,162.4	3,367.6	3,462.5	3,548.5	3,796.4	4,188.1	319.7	10.3
of which: building savings schemes	435.0	429.1	413.6	384.2	362.6	358.9	-3.7	-1.0
Investment funds	291.8	339.9	401.1	460.4	532.8	615.2	82.3	15.5
Pension funds	246.6	282.3	318.7	352.6	381.6	413.9	32.3	8.5
Insurance technical reserves	347.4	356.1	363.4	359.5	358.6	359.5	0.9	0.3
Currency in circulation	388.9	405.4	432.2	467.1	514.3	548.3	34.1	6.6
Total	4,437.2	4,751.4	4,977.8	5,188.1	5,583.6	6,125.0	541.3	9.7

Source: AKAT, APS CR, CNB–ARAD, MoF

In 2017, the highest relative increase in funds was seen again in investment funds, being only slightly smaller than in 2016 (by 0.3 pp). The long-term trend, that has been in place since 2012, thus remained unchanged. However, this was partly due to an increase in the valuation of fund assets. Any further gradual increase in interest rates could, however, lead to a decline in the current popularity of collective investment. The volume of deposits saw particularly high growth dynamics compared to 2016 (by 3.3 pp). An increase of 10.3% was also a record for this category in the monitored period. On the other hand, the growth of currency in circulation decelerated by 3.5 pp compared with 2016.

The largest increase in the absolute level of funds occurred during 2017 for the most significant item in terms of volume, that is, deposits in credit institutions, as was the case throughout the monitored period. Higher absolute change in the volume of funds compared to 2016 was recorded by both investment and pension funds. On the other hand, currency in circulation grew less than in 2016. The only decreasing item in 2017 was again the building savings, which has since 2013 seen gradual declines in deposits.

Graph 2.1: Placement of funds in the financial market



Source: AKAT, APS CR, CNB–ARAD, MoF

Note: The right side of the graph shows the differences in structure between 2012 and 2017.

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

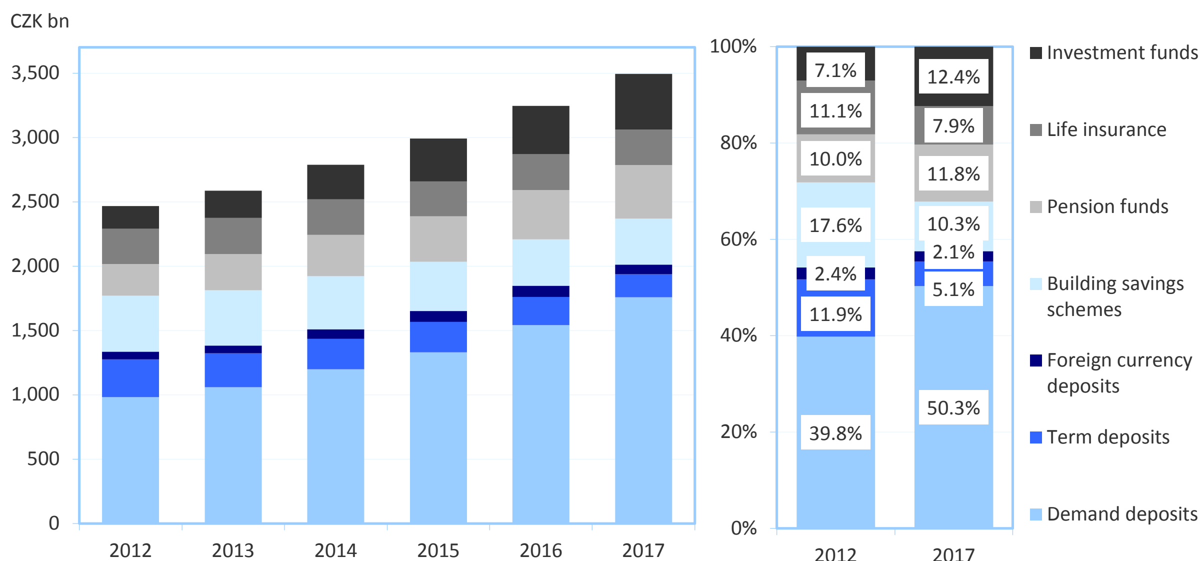
[4] Includes the CZK and foreign currency deposits of clients (residents and non-residents) in banks (including building savings banks), branches of foreign banks, and credit unions, but not including the CNB.

Based on the development in the volume of funds in the individual categories between 2012 and 2017, the tendencies described below can be identified. As can be seen on the right side of Graph 2.1, the largest increase was in funds placed in investment funds (by 3.5 pp), followed by pension funds (by 1.2 pp). Conversely, there was a significant decrease in deposits in credit institutions (by 2.9 pp). In 2017, however, the gradual decline in the share of deposit that has been in place since 2013 was interrupted. The share of deposits in total funds increased by 0.4 pp to 68.4 %; before 2013, deposits in credit institutions steadily accounted for around 71% of all funds in the financial market. The share of currency in circulation total funds ranged in the monitored period between 8.5% and 9.2%, and 2017 saw its slight decrease after 3 years of growth. The share of the category of technical reserves of insurance companies in total funds placed on the financial market continued in its long-term decline also in 2017, amounting to 2.0 pp in the monitored period.

3 STRUCTURE OF HOUSEHOLD SAVINGS

The volume of household savings kept in products offered on the intermediary financial market[5] has been gradually increasing over the past several years (Graph 3.1). In 2017 total savings reached a total of CZK 3.49 trillion, up 7.7% year-on-year, i.e. 0.8 pp less than in 2016.

Graph 3.1: Structure of household savings



Source: APS CR, CNB–ARAD, MoF

Note: The right side of the graph shows the differences in structure between 2012 and 2017.

Demand deposits saw the highest year-on-year absolute increase over the entire monitored period from 2012 to 2017. In 2017, they even rose by a record CZK 216.3 billion to a total of CZK 1.76 trillion, which also led to a year-on-year increase in their share in household saving structure of 2.8 pp to more than half of all household savings. Conversely, an outflow of funds continued for the sixth consecutive year for term deposits, when their volume decreased by a record CZK 39.7 billion in 2017. Another item, whose importance has been consistently declining, both in absolute and relative terms, is savings in the building savings sector. During the monitored period, their share in total savings was down 7.4 pp, which is the most of all the products mentioned. In 2017, the rising trend in the volume of foreign currency deposits, which lasted from 2012, was interrupted. The volume of foreign currency deposits fell by almost CZK 12 billion and their share in total savings decreased slightly to 2.1%. This was due to households' expectations concerning the CNB abandoning the exchange rate commitment and, subsequently, the appreciation of the Czech koruna as a reporting currency. In the monitored period, the share of banking institutions' products (individual categories of deposits and building savings) in the overall savings structure decreased by 4.0 pp to 67.8%. This means that 2017 saw a return to a downward trend, which was only briefly interrupted in 2016 when there was a very slight increase in the share of banking products.

Household savings in investment funds increased again significantly year-on-year, by CZK 57.8 billion (by 15.4%), which represents the highest relative increase of all products in 2017; however, it is a slower growth rate than in 2013–2015. However, the increase could also be partly due to the appreciation of savings in this segment. In 2017, the share of household savings in collective investment instruments was only 0.2 pp lower than its pre-crisis level in 2007 (12.6%).

The share of savings of households in pension products did not change for third consecutive year. Looking at a five-year time frame, however, the segment of pension funds gained importance, accounting for 11.8% of household savings at the end of 2017 (compared to 10% in 2012). The share of insurance companies as managers of household savings for reserve-creating life insurance products had been slightly decreasing since 2012. The year 2017 was no different, when the share of life insurance in household savings fell by 0.7 pp year-

[5] Includes household savings that are placed in the financial market through financial products offered by bank institutions, insurance companies and pension management companies (previously the pension funds), and collective investment instruments. Direct investments made by households in securities, commodities, and real estate are not monitored.

on-year. In addition, compared with 2016, also the absolute volume of household savings in life insurance decreased by CZK 0.6 billion.

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

4 INSTITUTIONAL ASPECTS OF THE FINANCIAL MARKET

4.1 Financial Market Entities

During 2017, there were only minor changes in the number of entities in individual sectors, which confirms the minimal need for establishment of new financial market institutions to meet the demand for financial services. Slight year-on-year variations in the number of entities rather point to natural development and do not represent changes that would fundamentally change the institutional structure of the domestic financial market. A general overview of the development in the number of entities is given in Table 4.1 below.

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

As at 31 Dec	2012	2013	2014	2015	2016	2017
Credit institutions						
Banks	43	44	45	46	45	47
of which: foreign banks branches	20	21	22	23	23	24
of which: building savings banks	5	5	5	5	5	5
Credit unions	13	12	11	11	11	10
Capital market						
Investment firms and branches of foreign investment firms	61	64	58	62	65	69
Investment funds having legal personality	77	88	83	91	108	125
Management companies[6]	21	24	26	28	28	29
Mutual funds	165	176	191	195	201	227
Qualified investors funds	48	56	53	55	60	79
Collective investment funds	117	120	138	140	141	148
Investment intermediaries	8,810	7,667	7,551	7,459	7,335	7,043
Tied agents[7]	20,045	25,821	26,056	26,659	26,612	26,448
Pension funds / companies	9	10	9	8	8	8
Insurance						
Insurance companies	53	52	53	55	54	50
of which: branches of foreign insurance companies	18	18	20	23	24	22
Reinsurance companies	1	1	1	1	1	1
Insurance intermediaries	147,971	156,217	163,204	169,024	174,092	181,121

Source: CNB

The Czech financial market is characterized by the dominating position of the banking sector, which has consistently managed about 80% of total assets. Its structure is characterised by the leading position of a group of 4 largest banks, which provide comprehensive services through their subsidiaries and parent companies, covering the vast majority of financial needs of the broad range of retail and corporate clients.

Minor changes in the number of entities in **credit institutions** involved, for example, the launch of Banka CREDITAS a.s., which was created by the transformation of the credit union: Záložna CREDITAS, spořitelní družstvo. Cetelem, a non-bank consumer credit provider, transformed into a new “on-line” bank branch branded as Hello bank! By Cetelem, which belongs to BNP Paribas S.A. financial group. The licence to operate banking activities through a foreign bank branch was also given to the Slovakian Privatbanka, a.s., Czech Republic branch, and the Chinese bank Industrial and Commercial Bank of China Limited, Prague Branch, which is the first bank institution operating on the Czech market as a branch of a non-EU-based bank. Conversely, two branches of foreign banks terminated, namely ZUNO AG and The Royal Bank of Scotland plc.

[6] Including one branch of a foreign investment company.
[7] Excluding tied agents of pension management companies.

The numbers in most **capital market** entities have increased slightly. This may be due to the continuing economic recovery and the related higher demand for investment products and services. The number of mutual funds saw a relatively significant increase (26 new entities), in particular in the category of qualified investors funds (19 new entities) aimed at wealthy clientele, where participation requires a certain minimum investment. The number of investment firms increased slightly mainly in the category of non-banking investment firms (3 new entities). In the case of banking investment firms, BNP Paribas S.A., the Czech Republic branch, and Privatbanka a.s., the Czech Republic branch, have recently been granted operating licence; conversely, the Royal Bank of Scotland plc terminated its operations.

The number of investment service providers has stabilized at a new, somewhat lower level, which represents further consolidation of this market segment. The previous tendency of the entities transforming from investment intermediaries to tied agents, caused by the legislative redefinition of the categories of intermediaries, ceased and their mutual share has stabilized. In the case of pension management companies, the situation has also become stabilized, with no change in the number of companies in the last 3 years.

In **the insurance sector,** ING pojišťovna a.s. and the travel insurance company ADRIA Way družstvo (the only entity with cooperative form) and 2 branches of foreign insurance companies – Atradius Credit Insurance N.V. and CG Car – Garantie Versicherungs – Aktiengesellschaft ceased their operations.

Entities that operate in the financial market in the Czech Republic taking advantage of the EU's free movement of services and goods and performing activities on the basis of the single European passport supplement and extend financial products offered by entities with a CNB license. Their numbers within the sectors of credit institutions, insurance companies and investment funds increased steadily in the monitored period from 2012. The number of management companies was rather stagnant over the monitored 6 years. The evolution in the number of entities in these categories is shown in Table 4.2 below.

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

As at 31 Dec	2012	2013	2014	2015	2016	2017
Credit institutions	329	337	353	385	405	420
Insurance companies	714	743	789	824	882	890
Investment funds	1,157	1,165	1,268	1,340	1,430	1,531
Management companies	46	45	47	46	48	48

Source: CNB–JERRS

Entities under the single European passport do not have reporting obligations towards the CNB, so the exact scope of their business activities cannot be ascertained. However, it can be assumed that their offer of services and products is not generally intended for a wide retail client base, but they rather offer narrowly specialized services and products for a niche group of clients, mostly non-residents. The scope of these institutions' operations is limited, yet these entities are considered an integral part of the Czech financial market, which increases its competitiveness and extends its product offer.

In connection with the effect of the new Consumer Credit Act[8] so-called "re-licencing" of non-bank consumer credit providers has started. Persons that were already carrying out this activity and filed an application within a transitional period of 3 months from the effective date of the Act (i.e. by 1 March 2017) may continue to operate under the current licence until such time as the CNB decides on their application, but not beyond 1 June 2018. The application was submitted by 112 entities and by the end of 2017 the CNB issued a license to 5 applicants. Most large consumer credit providers received the licence only in early 2018. The licence of persons that did not submit the application within the stipulated period expired on 1 March 2017, as laid down by law. The criteria for obtaining the consumer credit licence include, for example, credibility, professional competence, minimum capital (CZK 20 million) and its transparent and non-fraudulent origin, and a management and control system in line with statutory requirements. Significantly fewer entities (which will be supervised by the CNB) will be able to comply with the stricter organizational, personnel and financial requirements for the provision of consumer credit, as well as deeper assessment for dealings with debtors.

[8] Act No 257/2016, on consumer credit, as amended by Act No 183/2017 and Act No 303/2017.

Box 4.1: Institutional view of the impacts of Brexit on the financial market in the Czech Republic

In view of the maturity of the financial market and the minimal representation of UK-based entities, we do not anticipate significant impacts resulting from Brexit, i.e. the United Kingdom's exit from the EU. In the banking sector, there are only two institutions: HSBC Bank plc – Prague branch and Sumitomo Mitsui Banking Corporation Europe Limited, Prague Branch. There are four branches in the insurance sector: Chubb European Group Limited (formerly ACE European Group Ltd), AIG Europe Limited, organizational unit for the Czech Republic, QBE INSURANCE (EUROPE) LIMITED, organizational unit and Stewart Title Limited, organizational unit. All UK-based entities are not systemically significant for the Czech financial market and their share of assets in individual sectors is negligible.

4.2 Guarantee Schemes

An integral part of the financial market of the Czech Republic are two guarantee systems, which are intended to strengthen the protection of clients and the market as a whole.

The Financial Market Guarantee System (FMGS) is more significant in terms of volume and scope of rescue funds. It was established in early 2016 on the basis of a new Recovery and Resolution Act[9] through the transformation of the Deposit Insurance Fund (DIF). The newly FMGS manages funds that may be used to pay out compensations for deposits, as well as funds to address potential problems of credit institutions and certain investment firms in order to avert their bankruptcy. For this reason, the Crisis Resolution Fund (CRF) was newly established. Upon the establishment of the FMGS, the original DIF and the newly established CRF became its internal units with separate assets and accounting.

The FMGS provides management and use of funds intended to safeguard and maintain the stability of the entire financial market in the Czech Republic. To this end, it cooperates mainly with the MoF, the CNB and, where necessary, with similar systems in other Member States. The establishment of the FMGS represents a more comprehensive system of depositor protection and support for stability in the financial market than the original DIF used to ensure. The changes in financial market security settings, reflecting requirements of EU regulations, should ensure a stable and strong safety network that will minimize any problems of financial markets in each country and the entire EU.

The FMGS ensures disbursement of deposit compensation in case some of the banks, building savings banks or credit unions are designated by the CNB as insolvent, or in case the court decides on bankruptcy of such an institution. The deposit guarantee scheme guarantees compensations for deposits in banks, building savings banks and credit unions with their registered offices in the Czech Republic amounting to 100% of deposits including interests, however, not exceeding amounts corresponding to EUR 100,000 per client per institution. In certain cases stipulated by law, the new legislation on deposit guarantee increases the maximum amount of compensation up to amounts corresponding to EUR 200,000[10].

Deposits of clients in branches of foreign banks whose mother has its registered office in EU countries are guaranteed by a deposit guarantee scheme in place in the Member State where the mother has its registered office. Any compensation for deposits of clients of these branches would be paid by the FMGS based on instructions and to the account of the respective foreign deposit guarantee scheme. The development of DIF's core indicators characterizing its main revenue and expenditure side for the previous six-year period is shown in Table 4.3.

9 Act No 374/2015 Coll., on recovery and resolution in the financial market.

10 Increased compensation applies to deposits earned in specific life situations, such as sale of private immovable property used for housing, divorce settlement, collection of indemnity for injury, sickness, invalidity or death, inheritance, disbursement of a lump-sum pension, severance pay upon dismissal from work, compensation for damage caused by crime, etc.

Table 4.3: Basic indicators of DIF

As at 31 Dec	2012	2013	2014	2015	2016	2017
Contributions (CZK bn) [11]	3.5	3.7	4.3	4.4	2.1	0.9
Compensation payments (CZK mn)	1,787	30	14,526	235	3,291	261
Financial reserves (CZK bn)	24.7	28.6	18.9	28.8	27.9	30.3

Source: FMGS

Among the contributors to DIF were banks (80%), building savings banks (19%) and credit unions (1%). In terms of compensation disbursement, the commitment of the fund for the clients of ERB bank, a.s. accounted for the largest share (CZK 250 million), followed by payments to clients of WPB Capital, spořitelní družstvo (about CZK 8 million) and Metropolitní spořitelní družstvo (about CZK 3 million).

The CRF is to fund resolution of crisis situations of banks and some investment firms. The CRF collects funds that can be used in the event of threat to the stability of one of the financial institutions so that it is not necessary to end its existence with regard to its possible essential functions it has in the context of the financial sector and the entire economy, and, where applicable, it can be used to commence disbursement of deposit compensation to the institution's clients. The total contribution of financial institutions to the CRF over its two-year existence amounted to approx. CZK 6 billion (Table 4.4).

Table 4.4: Basic indicators of CRF

As at 31 Dec	2016	2017
Contributions to CRF (CZK bn)	3.0	3.0
Financial reserves (CZK bn)	3.0	6.0

Source: FMGS

The second guarantee system in the financial market in the Czech Republic is the Guarantee Fund of Investment Firms (GFIF). Its function is to ensure the disbursement of compensation to clients of investment firms who are not able to meet their obligations towards clients. The GFIF therefore does not cover the risk of the loss of value of investments in securities. Client receive compensation equal to 90% of the value calculated in accordance with the applicable provisions of the Capital Market Business Act[12] up to an amount of EUR 20,000 within three months after their claim has been verified.

The main source of GFIF's assets is contributions made by the involved players, i.e. investment firms and management companies that manage client assets. As the covered client assets remain (unlike in the case of deposits covered by the DIF) in the hands of the investment firm only for a relatively short period of time but repeatedly, the annual contribution is calculated differently, as 2% of the amount of fees and commissions collected for investment services provided during the past year. The volume of contributions collected by the GFIF from investment firms in 2017 totalled CZK 164.6 million. Over the same period, it disbursed about CZK 310 thousand on compensation to clients of former investment firms.

4.3 Financial Arbitrator

The Financial Arbitrator (FA) is gradually becoming, since its establishment in 2003, when it was a non-judicial dispute resolution authority competent to decide certain consumer or entrepreneur disputes regarding the payment system, a non-judicial authority competent to resolve disputes between consumers and financial institutions across the entire financial market. In 2017 there was a further extension of the FA's scope of competence, namely to disputes on non-payment accounts and savings books.

The FA's competence currently covers out-of-court settlement of consumer disputes in the field of payment system, non-payment accounts and savings books, electronic money, loans, including mortgages and building savings loans, most of the disputes concerning collective investment and investment services, currency exchange transactions and life insurance. In terms of financial services, the FA's scope of competence thus

[11] Contributions of insured institutions paid to the DIP for each year. Between 2011 and 2015, these were contributions paid for the first to the third quarter of the respective year and the fourth quarter of the previous one. In 2016, it was a contribution paid for the fourth quarter of 2015, and an annual contribution for 2016 of CZK 879.4 million, calculated based on a new methodology.

[12] Act No 256/2004 Coll. on Capital Market Business as amended.

only excludes products and services of the pension Pillar 3 (supplementary pension insurance and supplementary pension savings) and the entire non-life insurance.

In 2017, the FA received 1,337 petitions for the opening of proceedings, considered a total of 3,220 disputes and handled more than 4,000 queries from the public. The summary of the number of initiated proceedings is given in Table 4.5.

Table 4.5: Number of proceedings initiated in individual years

As at 31 Dec		2012	2013	2014	2015	2016	2017	Year-on-year change	
								Abs.	Abs.
Number of proceedings commenced		204	706	629	962	1,951	1,337	-614	-31.5
of which:	payment services	69	187	67	110	117	138	21	17.9
	consumers credit	133	502	317	190	233	338	105	45.1
	life insurance	-	13	224	639	1,132	734	-398	-35.2

Source: Annual reports of FA

Note: In 2013, the FA also dealt with 93,139 collectively filed disputed over a credit administration fee.

As in previous years, life insurance and consumer credit were the most common subject of disputes and queries in 2017. Life insurance disputes have a common denominator – the fees that represent one-off costs associated with the conclusion of an insurance contract. The costs are largely made up of commission paid to intermediaries. The premiums paid in the first 2–3 years after the conclusion of a life insurance contract usually do not cover one-time fees charged upon arranging the life insurance.

The primary objective of the FA is to reach an amicable settlement of disputes, which was successful in most of the considered and legitimate disputes. As regards judicial review of decisions, cases when institutions submitted the FA's decisions to courts were only a few. Completed reviews show that courts confirm the FA's decisions.

For reasons of better awareness of the general public about the cases under consideration, the FA makes its major decisions available in full in a Collection of Decisions on its website (without specifying the personal data of the petitioners). At the same time, this helps to increase the predictability of the decision-making activity of the FA. Currently, the Collection of Decisions contains more than 300 anonymised FA decisions issued since 2012.

The number of initiated proceedings and answered queries indicate that the public is interested in the possibility to resolve disputes through the FA. Claim proceedings with a financial institution initiated with reference to the consumer's obligation to fulfil the necessary condition for the opening of proceedings before the FA will in many cases suffice to resolve the dispute amicably. This is supported by the mere existence of the FA, the past experience of financial institutions with the proceedings before the FA and, undoubtedly, the Collection of Decisions of the Financial Arbitrator.

4.4 Economic Results and Number of Employees of Financial Institutions

In all monitored financial market segments (Table 4.6), a pre-tax profit was achieved in 2017. Banks, pension management companies and management companies posted record values throughout the monitored period. The banking sector has consistently accounted for the decisive volume of profits across the financial sector (86.6%); its profitability increased by 3.3% year-on-year. Year-on-year growth in profits in other sectors, i.e. pension management and management companies and investment firms, stood at around 14–18%. In the insurance sector, there was a year-on-year drop in profits of about 20%.

A more detailed analysis of the development of the various sectors which was reflected in the achieved profit can be found in chapters 5 to 8.

Table 4.6: Profit (loss) of financial institutions before tax

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	Abs.
Banking financial institutions	76.7	73.3	76.1	80.5	87.9	90.8	2.9	3.3
Insurance companies	15.0	13.2	8.7	10.0	13.2	10.6	- 2.6	- 19.9
Pension funds / management companies	-	-0.3	0.5	0.8	1.4	1.6	0.2	14.5
Management companies	0.4	0.6	0.7	0.8	1.1	1.3	0.2	14.3
Non-banking investment firms (incl. foreign branches)	0.7	1.1	0.9	1.0	0.8	1.0	0.2	18.6

Source: CNB–ARAD

Employment in the financial market sectors grew slightly in 2017, employing an average of over 73,000 workers, up 1.2% year-on-year (Table 4.7). Both banking and non-banking financial institutions, together with financial leasing companies, posted a year-on-year growth in employment. Insurance companies and pension management companies saw a reduction in the number of workers. In the case of pension management companies, the decline of workers was related to the definitive cessation of pension savings in the Pillar 2. The key sector in terms of employment – the banking financial institutions – saw a slight increase in the number of employees during the monitored period, which was probably linked to increasing regulatory requirements, while on the other hand rationalization of work processes and optimization of branch office location resulted in reducing the number of employees.

Table 4.7: Average headcount of financial institutions

Average for the period	2012	2013	2014	2015	2016	2017
Banking financial institutions	39,924	39,375	39,105	39,216	40,006	40,553
Non-banking financial institutions[13]	14,251	14,598	15,272	15,689	16,278	17,237
Insurance companies	14,464	14,213	13,993	13,768	13,724	13,099
Financial leasing companies	2,457	2,277	2,064	2,020	2,060	2,071
Pension funds / management companies	529	629	550	521	514	484
Total	71,624	71,092	70,984	71,214	72,582	73,444

Source: CZSO

[13] The CSO includes in this indicator credit unions, holding companies, management companies, investment funds, leasing companies, pawnshops, non-banking credit providers, foreign currency exchangers, brokers, factoring companies, securities traders, investment advisors and brokers, and insurance agents and brokers.

5 CREDIT INSTITUTIONS AND OTHER PROVIDERS OF ASSET FINANCING

This chapter primarily focuses on credit institutions, specifically banks (the bulk of the chapter), including building societies (Chapter 5.7), and credit unions (Chapter 5.8). Specific topics are also covered, such as interest rates (Chapter 5.4) and deposits and loans (Chapter 5.5). The next chapter (Chapter 5.9) deals primarily with the developments in the segment of non-banking financing providers. The sub-sector covered in the last section of this chapter offers products[14] that are fairly close substitutes for bank loans and, if they are offered to retail clients, contribute towards the indicator of overall household indebtedness.

Given the importance of households as the key client segment, the last chapter (Chapter 5.10) addresses the development of their indebtedness in relation to both banking as well as non-banking financing providers.

5.1 Main developments in the banking sector

Looking back at the year 2017, it can be observed that the banking sector has built on its stable results from the previous years. In a number of indicators it was even possible to see the continuing rising trends, such as in the case of the total volume of assets of the sector, which again reported a record level in 2017 (Table 5.1). As in the years 2015 and 2016, economic recovery supported further improvement of some of the indicators. This was reflected both in credit activity and in the declining trend of non-performing loans ratio (see Chapter 5.2), and consequently in the increase in the sector’s overall profit (see Chapter 5.3).

Factors, which contributed to the overall resilience of the sector since the post-2008 global financial crisis and the subsequent instability in the Eurozone, have remained in effect. These include the overall high and in the long-run increasing capital adequacy ratio of the sector as a whole, above-average profitability as a source for potential raising capital internally, long-term high coverage of client loans by deposits, relatively low non-performing loans ratio, and a low share of foreign currency loans, especially to households. Chapter 5.1 deals in more detail with the development of cross-cutting issues: capital adequacy, ratio of client deposits to loans, and stress tests.

Development of capital adequacy

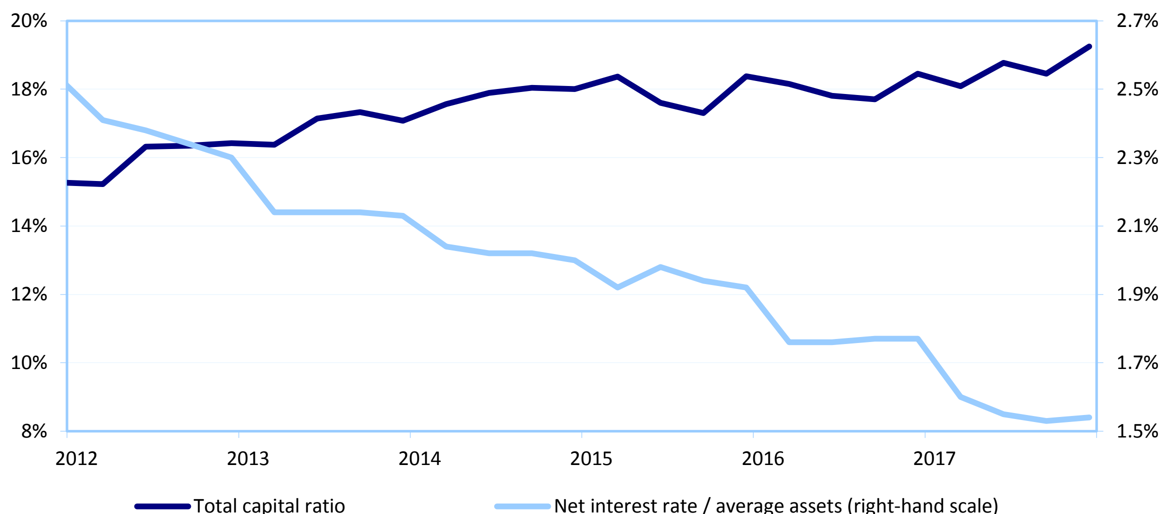
The banking sector’s capital adequacy indicator (Table 5.1), which can be seen as a “buffer” to cover any unexpected losses by the sector, and therefore as a source of stability, was slightly up by 0.8 pp year-on-year to 19.3%.[15] During the monitored period from the beginning of 2012 there was a significant and steady increase of this indicator by 4.0 pp (Graph 5.1). In general, however, an increase in capital adequacy may be the result of not only a greater volume of capital, but also due to a decrease in risk exposures.

There were slight differences in the amount of the total capital ratio across groups of banks according to the size (or focus). The value of the indicator for the “large bank” segment was closest to that of the “total” banking sector (18.7%) and showed the same year-on-year change as in the whole sector (0.8 pp) in 2017. The “medium-sized” bank segment continued to achieve a rather above-average value of 21.4 % (a year-on-year increase of 0.8 pp). The “small” banks maintained their level of capital adequacy (19.0%) in 2017 after a significant increase in 2016. The capital adequacy of building societies increased more significantly (by 1.3 pp) to 18.7%. It should be noted, however, that the different value of the capital ratio indicator does not necessarily fully indicate future resilience, because specific risks may affect each segment differently in the future.

[14] Some similar services and products (for example, in the area of the payment system or provision of foreign resources) are offered by entities on the border of the financial sector and information technology (FinTech) in areas such as peer-to-peer lending, crowd-funding, etc.

[15] The minimal regulatory requirement is 8% of TREA (total risk exposure amount), i.e. the total volume of risk exposures. It can be higher, though, in particular due to, updates resulting from changes of the Capital Requirements Regulation and Directive several years ago. Factors influencing the overall capital requirement rate that individual entities have to meet include, inter alia, the macro-financial cycle development, the so-called system significance or the consequences of the supervisory process of individual institutions.

Graph 5.1: Total capital ratio and net interest income on assets



Source: CNB–ARAD

Development of deposit-to-loan ratio[16]

As can be seen from Table 5.1, domestic banks have long been predominantly funded through client deposits. As a result, the banks were less dependent on the interbank market to finance the loans provided to clients, thus contributing to the resilience of the sector. In principle, during a period of acute lack of liquidity, difficulties usually appear first in the interbank market where financial institutions lend to each other. On the other hand, client deposits are usually a more reliable and stable source of funding if there is a liquidity crisis, as long as the public continues to have confidence in the deposit guarantee scheme.

Table 5.1: Basic indicators of the banking sector

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Total asset	4,778.6	5,200.6	5,388.0	5,549.7	6,019.4	7,065.4	1,045.9	17.4
Client loans	2,360.0	2,514.3	2,634.9	2,782.4	2,950.4	3,085.5	135.1	4.6
Client deposits	3,127.6	3,340.1	3,435.1	3,520.7	3,767.2	4,169.1	401.9	10.7
Ratio of client deposits to loans	132.5	132.8	130.4	126.5	127.7	135.1	7.4	5.8
Total capital ratio (%)	16.4	17.1	18.0	18.4	18.5	19.3	0.8	4.1

Source: CNB–ARAD

The ratio of client deposit to loans was relatively stable in the Czech Republic, and it stood at 135.1 % at the end of 2017 (an increase of 7.4 pp). In an international comparison within the EU these values are among the highest. On the other hand, a number of EU countries have reported significantly less favourable values, lowest in Denmark and Sweden (less than 50%). These countries are then more dependent on other sources of funding of the domestic banking sector.

At the same time, however, this ratio should be assessed taking into account that the domestic banking sector has seen a significant increase in the share of demand deposits in recent years.[17] On the side of banks' liabilities, there was thus an increase in sources of funding with shorter maturity (see Chapter 5.5). Another change beyond the comparison of ratio of client deposits to loans was the growth of bank deposits with the central bank and the increase in deposits from other credit institutions (see Chapter 5.2).

[16] This issue is also addressed in Chapter 5.5.

[17] For more details see Chapter 3. Structure of Household Savings and Chapter 5.5 Client Bank Deposits and Loans.

Bank stress tests

The resilience of this sector to any possible negative shocks has been repeatedly confirmed in the past by the **results of stress tests** regularly performed by the CNB. These tests analyze the effects of the baseline and adverse scenarios within a time horizon of 3 years. According to the results published in December 2017, the capital adequacy of banks as a whole would remain above the 8% regulatory minimum even in the case of the less probable significantly adverse "stress scenario".[18] In this model scenario, the capital adequacy of the sector, similarly to the tests carried out in 2016, would fall below 13%. A total of 9 banks would become non-compliant with the minimum requirement for the total capital ratio (8%), but these banks account for about 11.9% of the sector's assets. For the purpose of fulfilling the capital adequacy requirement, these nine banks would have to raise capital by CZK 10.3 billion. In the baseline scenario, the impact of more favourable economic development, based on the CNB's forecast, was tested. In that case, the total capital ratio would fall by 1.6 pp to 16.8 %.

In addition to the capital adequacy, the impact of tested scenarios on the non-performing loans ratio was assessed. In the case of the baseline scenario, slight deterioration in the quality of household credit was assumed, due to quality deterioration in consumer credit. In the adverse scenario, there would be a significant deterioration in the quality of both loans to household and loans to non-financial corporations, which would have a negative impact on the profitability of the banking sector. In addition, in June 2017, the CNB conducted stress tests of bank liquidity and a 5-year macro stress test. Based on its results, it highlighted the potential sources of risks from longer-term growth phase of the financial and economic cycle.

Beyond stress tests, it is appropriate to point out the general concept of "financial stability paradox". This concept highlights the risk that, during a period of higher stability and favourable financial sector developments, individual entities may be more likely to act less prudently. This situation can be exacerbated further by the low yields prevailing in the financial markets. Paradoxically, in the period of financial stability, imbalances can occur that may lead (if the risks materialize) to lower resilience of the financial system in the future. One should, therefore, respond to these risks of potential lower resilience in advance at a time when the system as a whole appears stable. In this context, the CNB has repeatedly mentioned the issue of mortgage lending (see Chapter 5.7) in respect to real estate price developments.

5.2 Banking Sector Assets and the Credit Portfolio Quality

At the end of 2017, the total volume of assets of the banking sector including building societies (Table 5.1) totalled CZK 7.07 trillion.[19] The growth rate of the balance sheet in 2017 was 17.4%, which is again a strong acceleration of the dynamics (by 8.9 pp) compared to 2016[20]. In comparison, the aggregate growth rate in 2012–2016 reached 30.6%.

Growth of the asset side of the balance sheet is largely attributable to an increase of the category of bank deposits with and loans to central banks, which grew by 79.2% year-on-year to CZK 2.29 trillion, i.e. almost to 6 times the amount at the end of 2012. Other significant changes in the volume of asset items included growth of loans and other receivables from clients (by CZK 135.1 billion, or 4.6%). On the other hand, investment in the category of other debt securities issued by domestic central government institutions decreased (by CZK 104.5 billion, or 18.9%); their volume has fallen by more than 40% since the end of 2012. In terms of the share in the total volume, bank deposits with the central bank and loans provided by the central bank accounted for 32.4% of banks' assets (an increase of 11.2 pp), while the share of loans and other receivables from clients decreased by 5.3 pp to 43.7%.

On the liabilities side, the increase in the balance sum was mainly reflected in an increase in deposits and loans received from other credit institutions (by CZK 539.9 billion, or 83.4%) and from clients (by CZK 401.9 billion, or

[18] The stress scenario included the assumption of a domestic GDP decline of up to 5%, a ten-quarter recession, and the overall macroeconomic deterioration in the domestic economy as well as abroad.

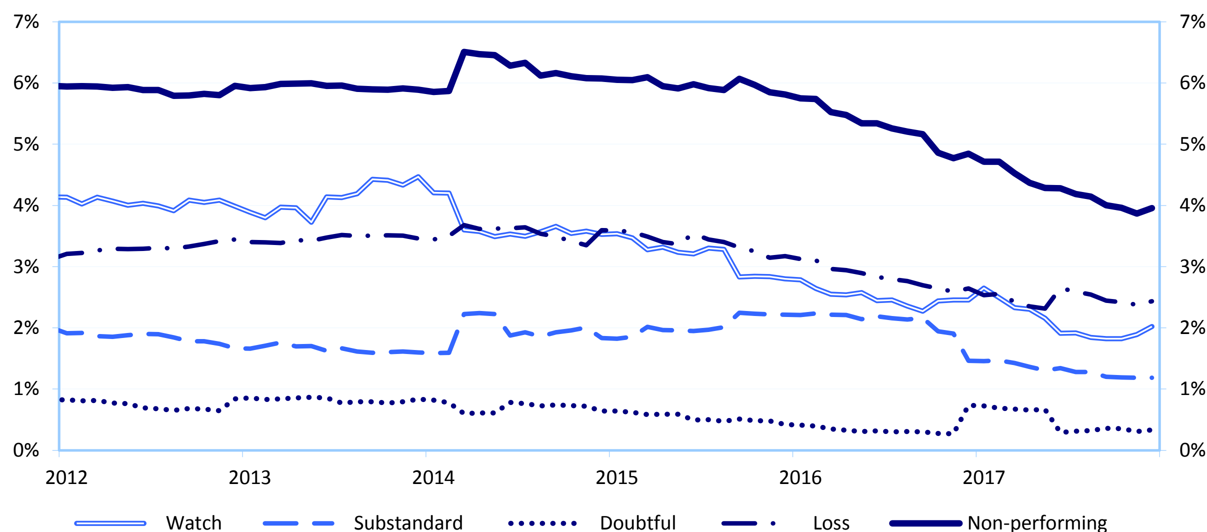
[19] These values, published in the CNB's time series ARAD system, differ from the values published by the CNB for example in its Supervisory Report due to different methodologies. These differences then may appear, for example, in the case of indicators of the share of non-performing loans.

[20] According to the CNB's information, banks optimized the structure of balance sheets at the end on 2015 in connection with new regulatory requirements (in relation to the CRF). This fact influenced the development of some balance sheet items and the balance sheet total.

10.7%). Dynamic growth in liabilities was also recorded by non-marketable securities issued (by CZK 124.9 billion, or 56.5%).

Client loans continued to be the key balance sheet item of banks (43.7%). It is therefore important to focus in greater detail not only on their volume but also on their quality. As illustrated by Graph 5.2, the share of non-performing loans on total client deposits provided to residents and non-residents (NPL ratio) decreased year-on-year by 0.9 pp to 4.0%, which is the lowest value over the past eight years. By contrast, in the period of 2011 to 2015, the value of the indicator did not change significantly and it oscillated around 6 %. The ongoing economic recovery and the resulting improved ability of borrowers to repay their liabilities thus led to a decline of NPL ratio. In the case of non-performing loans, however, it is also necessary to monitor the ratio of their coverage by provisions. This is rather higher in the Czech Republic in comparison with countries across Member States, which is reflected in the higher level of accounting depreciation of non-performing receivables in the investment portfolio, which stood at 49.1% at the end of 2017.

Graph 5.2: Loan categories by risk



Source: CNB–ARAD

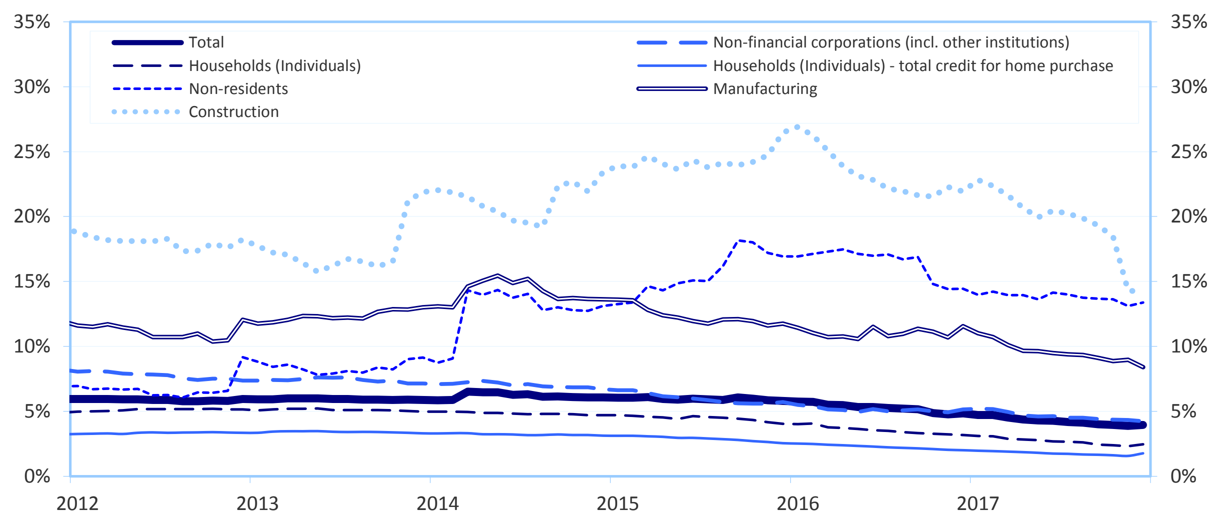
In terms of loan categories by risk (Graph 5.3), the overall decline in the NPL ratio had different implications for the specific categories. The second most risky category, the “doubtful loans” saw the highest decline (of 0.4 pp) to 0.3%. The least and the most risky categories of non-performing loans, the “sub-standard loans”, and “loss loans” similarly decreased by 0.28 pp to 1.2% and by 0.21 pp to 2.4%, respectively.

In terms of the share of individual categories in non-performing loans, the relative importance of “substandard loans” remained virtually unchanged year-on-year (30.0%). On the other hand, the share of “doubtful loans” fell by 6.7 pp to 8.5%, while the share of “loss loans” grew by 6.9 pp to 61.5%. A separate group of generally lower risk loans, which therefore do not fall under non-performing loans, but are also reported in terms of risk categorization of loans, are “watch loans”. The share of these loans in total loans decreased year-on-year by 0.44 pp to 2.0%. Over the monitored period, their share decreased by more than 50%.

Some differences (such as the quality of loan portfolios and provisioning) can still be observed across the individual segments of banks broken down by the volume of assets. It can be noted that in particular the segment of small banks reported a higher NPL ratio combined with a lower coverage ratio by provisioning.

Ongoing improvement in the quality of loan portfolios in 2017 was observed not only globally but also in the case of all monitored client segments (Graph 5.4).

Graph 5.3: Non-performing loans ratio by client segments



Source: CNB–ARAD, MoF calculations

The share of non-performing loans provided to non-financial corporations decreased to 4.2 % (by 0.9 pp). A lower value in this segment was reported for the last time at the end of 2008, i.e. before the economic slowdown associated with the then global financial crisis could have been reflected in the figures.

Loans to households (individuals)[21] saw a year-on-year decline in the share of non-performing loans (of 0.7 pp) to 2.5%, which was historically the lowest value at year-end. Households have consistently shown a lower share of non-performing loans compared to non-financial corporations. This can be mainly attributed to loans provided to households for home purchase, which witnessed a decrease to 1.8 % (of 0.2 pp). However, the year-on-year decline in total loans to households was also attributed to a significant reduction in the share of non-performing loans in the case of consumer loans (including debit balances on current accounts) by 1.7 pp (to 6.0%). Although the non-resident segment saw a more significant decrease (of 1.0 pp), the ratio for this segment remained therefore high (13.4%).

For a better illustration, Graph 5.3 also shows data for sub-groups of entities by sector of their economic activity. Even in their case, the improving economic situation led to a decline in the share of non-performing loans, as in the case of the aggregate category of non-financial corporations. The figure for manufacturing industry decreased by 3.2 pp to 8.4%. Loans to the construction sector saw an even higher year-on-year decline (by 7.7 pp to 14.2%). In the manufacturing industry, lower figures were reached for the last time in 2009. Conversely, the construction sector saw a decrease to 2010 levels.

In terms of risks that may potentially arise in connection with the developments of foreign exchange rates, it is important to monitor loans denominated in foreign currency. Their share in total client loans fell year-on-year to 18.9% (by 0.7 pp). Different values, however, were posted across specific sectors. The largest share of foreign currency loans in total loans provided within a given segment was reported by non-residents (74.9%), non-financial corporations (29.6%) and financial institutions (27.7%). In the case of non-residents and financial institutions, there was a year-on-year decline of more than 2 pp. By contrast, non-financial corporations saw an increase of 1.7 pp to reach the highest so far recorded share. In the case of exporting firms, however, it is often the case that the respective foreign currency cash flows needed to repay these loans are offset by their export revenues in foreign currencies, which significantly reduces the level of currency risk resulting from a foreign currency loan (in addition to any further hedging).

By contrast, households have long maintained essentially a negligible share of foreign currency loans (consistently around 0.2%). This long-term share of foreign currency loans has positive implications with regard to the resilience of debtors (in particular, households) against changes resulting from exchange rate fluctuations, and, consequently on the developments in the real economy and the stability of the financial sector.

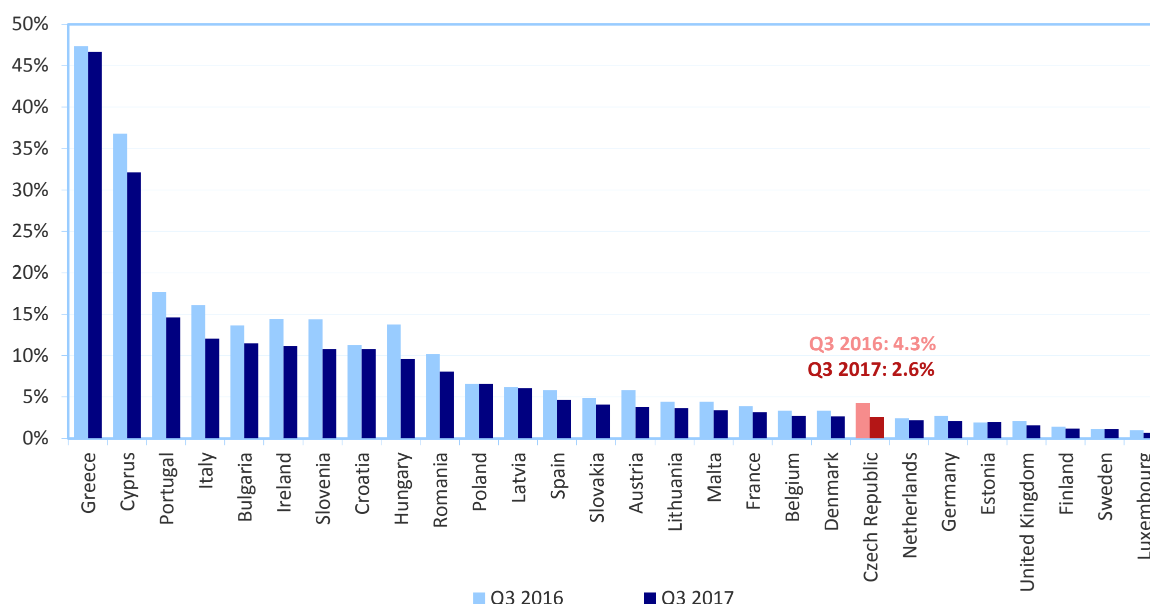
[21] Individuals represent one of subsectors in the household sector (i.e., employees, recipients of property income, pension recipients, and recipients of other transfers), excluding sole traders and associations of apartment owners.

Box 5.1: Non-performing loans in European Union

The issue of high levels of non-performing loans (NPLs)[22] has been frequently discussed in recent years as part of the ongoing effort to reduce risks and strengthen the resilience of the EU financial system. The high ratio of NPLs to total loans (NPL ratio) reduces the profitability of banks, their ability to provide loans, and consequently may negatively affect the financial stability of individual institutions or the whole system. Efforts to reduce existing high volumes of NPLs and prevent their excessive growth in the future have thus become one of the priorities for the completion of the Banking Union, and are also one of the building blocks of the Capital Markets Union (see Chapter 9).

In 2017, most Member States experienced a continued decline of the NPL ratio (Graph 5.4). The average NPL ratio in the EU at the end of Q3 2017 was 4.4% and in absolute terms these loans amounted to EUR 910 billion. In eight Member States, the banking sector reported the NPL ratio above 10%. Conversely, the Czech Republic is among ten Member States with the NPL ratio of less than 3%. Although there has been a significant reduction in the NPL ratio overall in the EU in recent years, significant differences still persist across Member States and individual credit institutions.

Graph 5.4: NPL ratio in Member States



Source: ECB – consolidated banking data

5.3 Economic Results and Profitability of the Banking Sector

The banking sector's pre-tax profit in 2017 was CZK 90.8 billion (Table 5.2). This represented a year-on-year relative increase of 3.3%. Although the profit growth rate was lower than in 2016 (by 6.0 pp), the banking sector still showed the highest absolute value of profit over the monitored period.

Net interest income and the development of some other categories of the profit and loss statement, which are collectively referred to as "other items", contributed to the growth of total profits. On the contrary, net revenues from fees and commissions and administrative costs pushed the profit lower.

[22] The European Banking Authority (EBA) defines NPLs as the sum of loans that are either in default (the loan is more than 90 days past due or is unlikely to be repaid) or financially impaired. For the full definition, see Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council. Elsewhere in the Chapter 5, non-performing loans denotes data according to CNB former definition.

Table 5.2: Selected items from the profit and loss accounts of the banking sector

Item (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Net interest income	107.9	105.5	110.4	110.9	109.9	112.1	2.2	2.0
Interest income	170.4	154.8	158.9	150.9	143.4	146.8	3.3	2.3
Interest expenses	62.5	49.3	48.4	40.0	33.6	34.7	1.1	3.2
Net fee and commission income	37.3	37.1	36.0	34.6	32.4	32.0	-0.4	-1.3
Fee and commission income	49.2	49.9	49.0	47.9	44.8	44.5	-0.3	-0.7
Fee and commission expenses	11.9	12.8	12.9	13.3	12.4	12.5	0.1	0.8
Administration costs	66.6	65.8	70.2	70.7	71.7	73.4	1.7	2.4
Other items	-1.9	-3.4	-0.1	5.7	17.3	20.1	2.8	13.8
Total profit or loss before tax	76.7	73.3	76.1	80.5	87.9	90.8	2.9	3.3

Source: CNB–ARAD, MoF calculations

Net interest income grew by CZK 2.2 billion year-on-year. Interest revenues increased year-on-year by CZK 3.3 billion (to CZK 146.8 billion), which was more than the increase in interest expenses (by CZK 1.1 billion). The increase in the volume of interest-bearing assets (including deposits with the central bank) contributed significantly to the growth of net interest income. The net interest margin (net interest income relative to average assets) had the opposite effect, as it declined by 0.2 pp year-on-year and by 0.8 pp during the monitored period. General challenges for bank management in a "low interest rate environment" include principally difficult reduction in the relative level of interest expenses on deposits bellow the zero lower bound (Table 5.4) and quest for long-term profitable placement of available financial resources of banks with a long-term favourable mix of revenue and risk.

Net fee and commission income, unlike net interest income, declined year-on-year (by CZK 0.4 billion) to CZK 32.0 billion. The slight decrease in fee and commission income (by 0.7%) and the increase in the respective expenses (by 0.8%) contributed to the decrease in the resulting net value. Despite the growth in the volume of the sector's balance sheet, net revenues from fees and commissions thus continued their long-term decline that lasted throughout the monitored period, during which this category posted an overall decrease of 14.1%. There has been a consistent increase in the relative importance of net interest income for the profitability of banks.

Similarly to 2014–2016, in 2017 the profit was slightly negatively influenced by an increase in administrative costs of 2.4% to CZK 73.4 billion. However, these costs declined relatively to the growing balance sheet size. The development of the category of "other items" had a positive impact on the overall profit, as it grew year-on-year by CZK 2.8 billion. This aggregate category of "other items" contains a number of sub-items of the profit and loss statement and therefore its overall development was affected by a number of partial factors. The decline in profits from the derecognition of financial assets and liabilities not measured at fair value and the derecognition of non-financial assets and the decrease in the gains from exchange differences and dividend income had a negative effect. On the other hand, the growth in prices of some assets on the financial markets, the rising quality of credit, which was reflected in the decline in impairment losses and the increase in gains from financial assets and liabilities held for trading, had a positive impact.

Profitability indicators

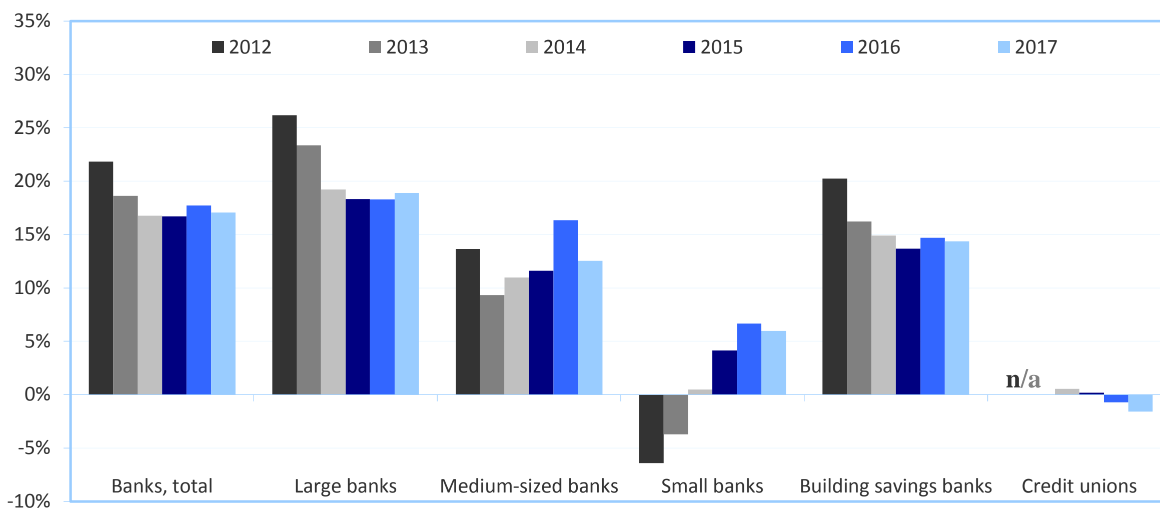
As a whole, the banking sector reported return (or profitability) on Tier 1 capital of 17.1% (a year-on-year decrease of 0.6 pp). (Graph 5.5). After a year-on-year decline in 2013 and 2014, this figure has not changed much in recent years. A similar overall development of return on Tier 1 capital over the monitored period was also seen in the sectors of "large banks"[23] (18.9%) and building societies (14.4%), which reported highest figures. However, the large banks were the only ones that managed to increase the return on Tier 1 capital (by 0.6 pp) in 2017. The medium-sized banks saw a decline of 3.8 pp to 12.5%. Small banks then maintained the

[23] The division of banks according to the balance sheet total was continuously adjusted by the CNB, which subsequently affects the classification of individual banks and development of indicators. The division until 2012 (inclusive) was as follows: large banks with a balance sheet total exceeding CZK 200 billion, medium-sized banks with a balance sheet total CZK 50 to 200 billion, and small banks with a balance sheet total lower than CZK 50 billion. Since 2013, the threshold between medium-sized and large banks shifted to CZK 250 billion. Since 2016, the threshold has increased to CZK 400 billion, and the threshold between small and medium-sized banks was adjusted to CZK 100 billion.

value of profitability achieved in 2016 (down by 0.7 pp to 6.0%), but still saw the lowest values during the monitored period. For the sake of comparison, the Graph includes the profitability of the credit union sector, which was negative in 2017, standing at -1.6%.[24]

In the long run, return on Tier 1 capital was declining. In 2009, the profitability of the sector was higher by 9 pp. The decline in net interest margin, net revenues from fees and commissions and Tier 1 capital increase also contributed to this decline over the long term.

Graph 5.5: Profit (loss) after taxation/Tier 1 capital (%)



Source: CNB–ARAD

5.4 Interest Rate Development

The development of market interest rates is in particular influenced by the effects of the CNB's monetary policy. In the spring of 2017, the CNB terminated the so-called "exchange rate commitment" (see Chapter 1.2). In August and November 2017, the CNB then increased its monetary policy rates, the first time since 2008. In 2017 the key 2W repo rate rose from 0.05% to 0.5% and the Lombard rate from 0.25% to 1%. The central bank did not change the discount rate. The CNB interest rates are illustrated in Table 5.3.

Table 5.3: CNB interest rates

As at 31 Dec (%)	2012	2013	2014	2015	2016	2017
2W repo	0.05	0.05	0.05	0.05	0.05	0.50
Discount	0.05	0.05	0.05	0.05	0.05	0.05
Lombard	0.25	0.25	0.25	0.25	0.25	1.00

Source: CNB–ARAD

In 2017, the average interest rates of all (i.e. not only new) client deposits and loans (Table 5.4) fell to new lows, with the exception of loans to non-financial corporations where the average interest rate did not change. This was a continuation of a several-year-long decline in the context of the existing expansionary monetary policy setting of the CNB. The yield on household deposits continued to be higher than in the case of non-financial corporations. In terms of loans, the average interest rate on loans to households saw a significant decline (by 0.5 pp). Loans for residential property provided to households decreased by 0.4 pp, similarly to the previous years. On the other hand, the decrease in the interest rates on loans for consumption to households was the largest in the monitored period (by 1.4 pp). Unlike households, the average annual interest rate on loans to non-financial corporations did not change year-on-year as the monthly rate rose in August, after reaching its minimum of 2.5% in July.

[24] The data for profitability of credit unions is not listed for 2012 and 2013 as in those years the information value of the data from the profit and loss statement was influenced by different reporting periods of entities in the credit union sector.

Table 5.4: Average interest rate[25]

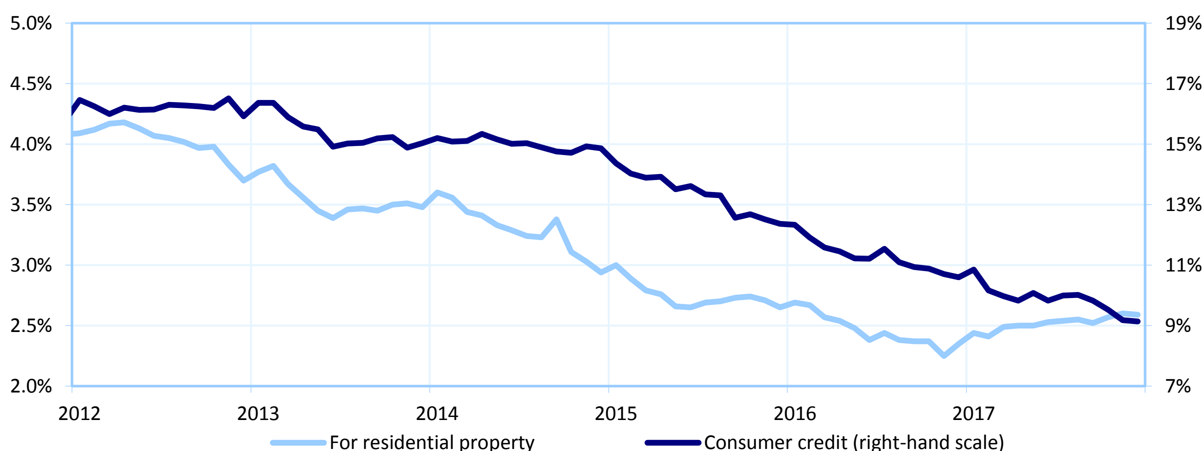
	Average for the period (%)	2012	2013	2014	2015	2016	2017
Deposits	households and small entrepreneurs	1.2	1.0	0.8	0.6	0.5	0.4
	non-financial businesses	0.6	0.4	0.3	0.2	0.1	0.0
Loans	to households and small entrepreneurs	6.5	6.0	5.6	5.1	4.6	4.1
	for consumption	14.5	14.6	14.5	13.9	12.8	11.4
	for residential property	4.8	4.3	3.9	3.5	3.1	2.7
	to non-financial businesses	3.7	3.2	3.0	2.8	2.6	2.6

Source: CNB–ARAD, MoF calculations

Note: average rates of total Czech koruna deposits and loans, i.e. not only on new business.

In the case of loans to households, it is worthwhile to monitor the more comprehensive indicator that includes additional costs associated with the loan (i.e. the annual percentage rate of charge, or APRC) in addition to the interest rate (as the basic measurement of the cost of the loan).[26] In recent years, within the monitored period, the APRC for newly granted loans, which is shown in Graph 5.6, has generally declined both in the case of newly granted loans for the purchase of residential property and new consumer loans. However, in 2017 these indicators developed differently. While the APRC on consumption loans fell year-on-year by 1.5 pp to 9.1%, the APRC for the purchase of residential property saw a moderate year-on-year growth of 0.2 pp to 2.6% for the first time in the monitored period.

Graph 5.6: Annual Percentage Rate of Charge (APRC) of CZK loans provided by banks



Source: CNB–ARAD

5.5 Client Bank Deposits and Loans

The volume of client bank deposits[27] increased year-on-year by 10.7 % and stood at CZK 4.17 trillion (Table 5.5). This was a significant year-on-year acceleration in the growth rate (by 3.7 pp). The highest growth was observed in the case of the financial institutions (by 61.0%), followed by non-residents and government institutions (both by about 13%). Households (by 7.3%) and non-financial corporations (by 8.8%) saw a moderately below-average growth rate.

The absolute increment of total client deposits (by CZK 401.9 billion) was the highest in the monitored period, mainly due to the higher year-on-year increase of deposits by non-financial corporations and financial institutions compared to developments in 2016. Households recorded the highest growth (by CZK 160.9 billion), followed by financial institutions (by CZK 98.6 billion), non-financial corporations (by CZK 80.8 billion) and government (by CZK 30.6 billion).

[25] The data apply to deposits and loans in CZK.

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

[27] The data do not include central bank or credit unions deposits or loans.

Table 5.5: Breakdown of deposits with banks by client segments [28]

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Households	1,770.3	1,812.2	1,923.2	2,034.7	2,209.3	2,370.2	160.9	7.3
Non-financial companies (including other institutions)	716.0	776.7	838.3	921.6	916.1	997.0	80.8	8.8
Government institutions	373.5	428.1	339.3	214.3	234.1	264.7	30.6	13.1
Financial institutions	138.2	164.6	146.7	150.3	161.7	260.3	98.6	61.0
Non-residents	106.1	132.1	156.9	167.9	209.5	237.2	27.8	13.3
Non-profit institutions	23.4	26.3	30.8	31.9	36.5	39.7	3.2	8.6
Total	3,127.6	3,340.1	3,435.1	3,520.7	3,767.2	4,169.1	401.9	10.7

Source: CNB – ARAD

In terms of the structure of deposits[29] by maturity, one can observe a long-term decline in the share of term deposits and an increase in demand deposits. Year-on-year, the share of term deposits was down by 1.4 pp to 20.1%, down to even less than half over a six-year period. In particular, this development can have a significant impact on individual banks in terms of their financing structure.

As noted above, the total volume of client loans in the banking sector has consistently been lower than that of client deposits. At the end of 2017, the volume of loans reached CZK 3.1 trillion (Table 5.6). Unlike in the case of deposits, the year-on-year growth rate of loans declined slightly year-on-year (by 1.5 pp to 4.6%). The loan growth dynamics averaged around this figure over the whole monitored period (5.0%).

Table 5.6: Breakdown of loans with banks by client segments

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Households	1,132.2	1,180.7	1,228.4	1,321.4	1,417.4	1,527.2	109.8	7.7
Non-financial companies (including other institutions)	835.4	867.1	874.7	920.9	975.6	1,022.0	46.3	4.8
Government institutions	61.5	57.5	59.1	58.2	48.1	44.4	-3.7	-7.7
Financial institutions	116.4	119.7	148.7	158.7	188.3	193.3	5.0	2.7
Non-residents	212.3	287.1	322.0	320.9	318.6	296.0	-22.6	-7.1
Non-profit institutions	2.3	2.1	2.0	2.3	2.4	2.7	0.2	9.3
Total	2,360.0	2,514.3	2,634.9	2,782.4	2,950.4	3,085.5	135.1	4.6

Source: CNB – ARAD

In terms of relative changes in the specific client segments, loans to households (by 7.7%) and non-financial corporations (by 4.8%) saw the highest growth. Both of these sectors maintained this year-on-year growth dynamics for the third year in a row. On the other hand, loans to financial institutions (by 2.7%) saw a year-on-year decline in growth rates. Loans to government institutions declined for the third consecutive year (-7.7%). Similarly, loans to non-residents went down (-7.1%).

In terms of absolute changes, the increase in loans to households was dominant (by CZK 109.8 billion). It accounted for 81.3% of the total increase in client loans (by CZK 135.1 billion). The increase in loans to non-financial corporations (by CZK 46.3 billion) was similar to the previous two years. On the other hand, non-

[28] The table lists bank deposits. The values are therefore different from Table 2.1, which shows all credit institutions deposits.

[29] This issue is also dealt with, from the point of view of households, by Graph 3.1, which shows separately deposits in building savings and in a foreign currency.

residents saw the highest absolute decrease (by CZK 22.6 billion) from all segments, which meant the continuation of the trend of 2015 and 2016. However, this also reflected appreciation of the CZK against foreign currencies.

An alternative view of the structure and development of loans by type (i.e., not by the sector) is presented in Table P2.1 in Appendix 2.

5.6 Mortgage Market

In 2017, there was a lot of activity on the mortgage market, although some aggregate indicators saw a slight year-on-year decline. In terms of a wider indicator including all new mortgage loans[30] (i.e. newly granted, refinanced or with otherwise modified credit agreement), whether or not provided for a special purpose and irrespective of currency and client segment, the historically high volumes from 2016 (which reached CZK 413.2 billion) were not surpassed. The year-on-year increase of 21.5% in 2016 was thus followed by a year-on-year decline of 1.5%. As shown in Table 5.7, the number of new mortgage agreements decreased to 192.6 thousand. This was also a significant change in the year-on-year growth dynamics from 16.8% growth in 2016 to 9.0% decline in 2017.

In terms of purpose, most newly granted mortgage loans are usually used for the purchase of residential property, whose share even increased in 2017 by 4 pp to 75.4%. In 2017, this sub-category of loans also saw a year-on-year increase in the volume of newly granted loans of 3.8% to CZK 311.7 billion. In contrast, the number of contracts in this category declined by 8.9% to 171.4 thousand. Unlike loans for residential property, new mortgage loans for non-residential property and other purposes saw a year-on-year decrease by 15.0% to CZK 101.5 billion.

Table 5.7: New mortgage loans by manner of acquisition[31]

As at 31 Dec		2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Residential property	total (000's)	102.8	131.6	159.9	188.2	171.4	-16.7	-8.9
	total agreed principal (CZK bn)	166.4	195.0	236.8	300.3	311.7	11.3	3.8
	share in total agreed principal (%)	68.6	62.0	68.6	71.6	75.4	3.9	5.4
Non-residential property and other purposes	total (000's)	13.3	19.2	21.3	23.5	21.2	-2.3	-9.8
	total agreed principal (CZK bn)	76.3	119.3	108.6	119.3	101.5	-17.8	-15.0
	share in total agreed principal (%)	31.4	38.0	31.4	28.4	24.6	-3.9	-13.6
Total	total (000's)	116.1	150.8	181.2	211.6	192.6	-19.0	-9.0
	total agreed principal (CZK bn)	242.6	314.3	345.4	419.7	413.2	-6.5	-1.5

Source: CNB–ARAD

In terms of the total amount due (i.e. outstanding volume)[32] of mortgage loans, 2017 saw a decline in year-on-year growth from 10.5% to 7.9%, reaching a volume of almost CZK 1.5 trillion (Table 5.8). The share of mortgage loans for residential property was again dominant (72.6%), with outstanding volume amounting to CZK 1,088.3 billion. Their year-on-year growth rate was similar to that in 2016 (slightly above 9%). In the case of outstanding mortgage loans for non-residential property and other purposes, the dynamics returned to value from 2015, which means a significant decrease in the year-on-year growth rate of 9.5 pp to 4.5%. The volume of these loans increased by CZK 17.6 billion to CZK 409.7 billion.

[30] Mortgage loans are defined here as loans with at least 50% secured by real estate, provided for residential and non-residential property, and other mortgage loans including general purpose mortgages, without distinction of currency and behind all economic sectors of clients including accruing accessories. They also include loans provided by building savings banks where the loans are secured by real estate.

[31] The five-year monitored period was used due to availability of data from 2013.

[32] Since this is the state of outstanding volume including refinanced mortgage loans, one may not, in terms of methodological approach, for example, interpret the volume increase only as an increase in loans provided by banks or an increase in their willingness to provide loans, but it may also be a consequence of deterioration in the ability of borrowers to repay their liabilities.

Table 5.8: Total mortgage loans by manner of acquisition

As at 31 Dec.		2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Residential property	total (000's)	687.0	711.0	757.8	779.3	824.3	45.0	5.8
	outstanding volume (CZK bn)	790.4	844.7	913.1	996.4	1,088.3	94.9	9.2
	share in outstanding volume (%)	73.4	72.0	72.6	71.8	72.6	0.9	1.2
Non-residential property and other purposes	total (000's)	81.1	97.3	100.1	108.4	113.2	4.7	4.4
	outstanding volume (CZK bn)	286.3	327.8	344.1	392.1	409.7	17.6	4.5
	share in outstanding volume (%)	26.6	28.0	27.4	28.2	27.4	-0.9	-3.1
Total	total (000's)	768.0	808.3	857.9	887.7	937.4	49.7	5.6
	total outstanding volume (CZK bn)	1,076.7	1,172.5	1,257.1	1,388.5	1,498.0	109.5	7.9

Source: CNB–ARAD

In addition to purchase purpose, mortgage loans can also be classified by the interest rate fixation period (Table 5.9). Even in 2017, clients preferred mortgage loans with a 1-year to 5-year fixation (CZK 212.9 billion, 51.5% of the volume of all new loans). The total amount of loans with this fixation period grew by 5.0% year-on-year to CZK 843.1 billion, although the year-on-year growth rate was declining from 2015. Loans with a 5- to 10-year fixation saw both the highest growth rate of new mortgage loans (8.0%) and outstanding volume of mortgage loans (38.7%). In 2017, new loans with this fixation period amounted to CZK 103.2 billion, which accounted for a quarter of all new loans. The total volume of loans with a fixation from 5 to 10 years thus increased to CZK 304.2 billion.

The increase in interest rates and the expected continuation of this trend were one of the reasons for a 22.5% drop in new loans with a variable interest rate and a fixation of up to one year. Nevertheless, new loans with this fixation period accounted for more than one fifth of the volume of new mortgage loans (CZK 84.6 billion) and almost a fifth of the total volume of mortgage loans (CZK 286.0 billion) in 2017. Interest rate developments also contributed to a decline in the volume of new mortgage loans with a fixation period of more than 10 years, which, after two years of year-on-year growth, fell in 2017 by 2.8% to CZK 12.4 billion. The outstanding volume of mortgage loans with this fixation period declined throughout the monitored period from 2013 onwards, and 2017 was no exception when it amounted to CZK 64.7 billion, down by 2.0% year-on-year.

Table 5.9: Mortgage loans by period of interest rate fixation

As at 31 Dec		2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
New mortgage loans (CZK bn)	Floating and fixing up to 1 year	82.9	123.3	106.4	109.2	84.6	-24.6	-22.5
	Fixing over 1 and up to 5 years	137.0	159.6	183.2	201.4	212.9	11.5	5.7
	Fixing over 5 and up to 10 years	10.7	25.4	47.4	96.3	103.2	7.0	7.3
	Fixing over 10 years	12.1	6.0	8.4	12.8	12.4	-0.4	-2.8
	Total	242.6	314.3	345.4	419.7	413.2	-6.5	-1.5
Outstanding volume (CZK bn)	Floating and fixing up to 1 year	273.0	307.6	302.5	300.4	286.0	-14.4	-4.8
	Fixing over 1 and up to 5 years	544.9	602.5	716.7	802.7	843.1	40.4	5.0
	Fixing over 5 and up to 10 years	116.4	122.9	117.9	219.4	304.2	84.8	38.7
	Fixing over 10 years	142.4	139.6	120.0	66.0	64.7	-1.3	-2.0
	Total	1,076.7	1,172.5	1,257.1	1,388.5	1,498.0	109.5	7.9

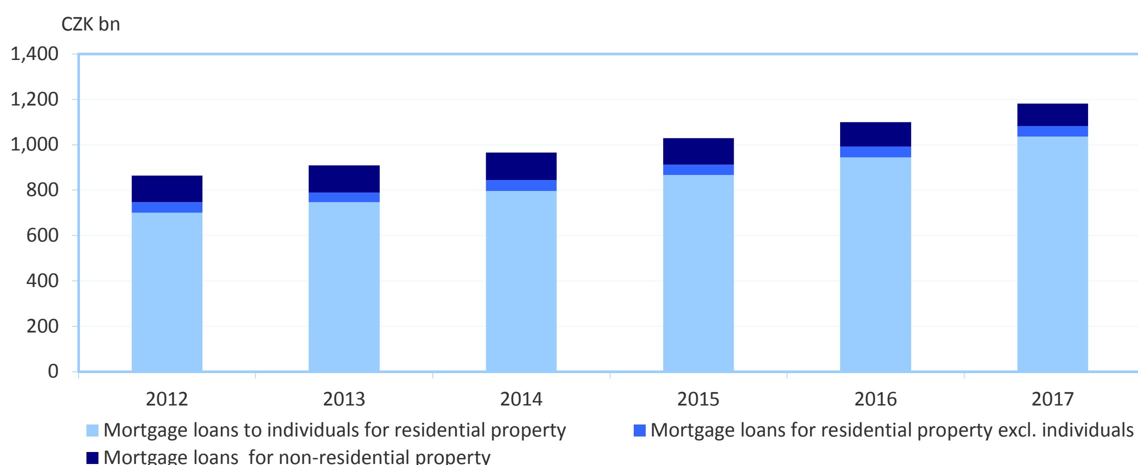
Source: CNB–ARAD

In terms of a narrower sub-category of new residential property mortgage loans for individuals, the mortgage market again saw a record volume of CZK 295.0 billion, despite the decline in year-on-year growth of 23.8 pp. Concerning another mortgage market sub-category, newly granted mortgage loans including extensions of loans clients received CZK 173.8 billion in 2017, which was even CZK 15.3 billion higher than in 2016.[33]

Graph 5.7. shows the development of outstanding mortgage loans provided for the purchase of residential and non-residential property[34]. The total outstanding volume of these loans saw growth again, which slightly accelerated in 2017 to 7.4 %. However, the increase was seen only in the sub-category of mortgage loans for residential property, whose volume grew year-on-year at a similar rate as in 2016 (slightly above 9%) to CZK 1,082.8 billion. Conversely, the total outstanding volume of mortgage loans in the second sub-category, i.e. loans for non-residential property, declined by 7.9% year-on-year to CZK 99.0 billion.

Traditionally, the dominant category of mortgage borrowers is individuals[35], who receive the largest share of mortgage loans for residential property (95.6 %). Individuals increased year-on-year their indebtedness through residential property mortgage loans by CZK 91.5 billion (i.e. 9.7%) to CZK 1,035.6 billion. There was a slight acceleration of the year-on-year growth compared to 2015 and 2016, when growth was just below 9%.

Graph 5.7: Structure of mortgage loans for residential and non-residential property



Source: CNB–ARAD

The development of interest rates on mortgage loans monitored by Hypoindex[36] reversed in 2017, as expected, when interest rates started increasing, breaking the earlier downward trend. The rates of this index increased by 0.42 pp year-on-year. Hypoindex thus returned above 2% after more than thirteen months, symbolically in April, the month when CNB's recommendation for mortgage providers became effective[37]. The highest figure in 2017 of 2.19% was reached in December. While mortgage rates declined to the lowest levels in history of Hypoindex (1.77% p.a.) in November and December 2016, the first months of 2018 suggest that further growth in these rates is likely to be expected.

The spread between the interest rate on new mortgage loans and the basic monetary policy rate (i.e. Hypoindex and the 2W repo rate) first approached 2 pp during 2017 due to the increase in the mortgage rates. However, due to the subsequent two-fold increase of the monetary policy rate from 0.05% to the

[33] Net new mortgage loans including extensions of loans accounted for 58.9% of the total volume of new mortgage loans in 2017 (i.e. including refinanced loans or other renegotiations of existing loans). In 2016, this share was 56.5% and in 2015 54.6%.

[34] These mortgage loans for residential and non-residential property do not include accruing accessories and general purpose mortgage loans.

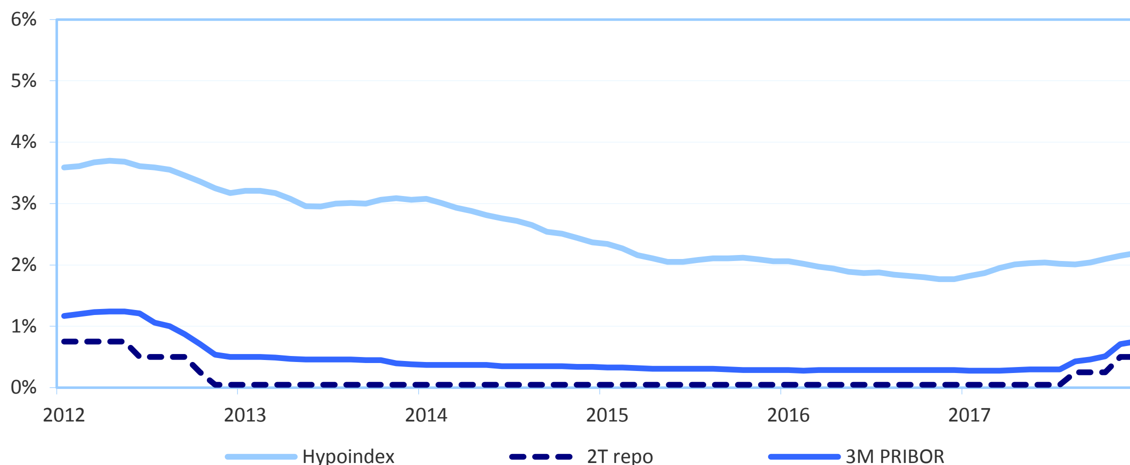
[35] Individuals represent one of subsectors in the household sector (i.e., employees, recipients of property income, pension recipients, and recipients of other transfers), excluding sole traders and associations of apartment owners.

[36] The FINCENTRUM HYPOINDEX indicator is the weighted average interest rate which is applied to new mortgage loans provided to individuals during the given calendar month. The weights are the volumes of loans provided. The input data for the calculations are provided by the following banks: Air Bank, Česká spořitelna, ČSOB, Equa Bank, Moneta Money Bank, Hypoteční banka, Komerční banka, Raiffeisenbank, Sberbank CZ, UniCredit Bank a Wüstenrot hypoteční banka.

[37] Since 1 April 2017, the LTV limits have been tightened following the CNB's Recommendation on management of risks associated with provision of retail loans secured by residential property. LTV for these loans should currently be no more than 90%, and the loans with LTV of 80–90% should not account for more than 15% of the total volume of loans in the quarter.

eventual 0.5%, this spread narrowed to a historical low (1.69 pp) in December. The development of client, interbank and monetary policy rates in the monitored period is illustrated in Graph 5.8.

Graph 5.8: Development of selected interest rates



Source: Fincentrum, CNB–ARAD

Although the increase in CNB interest rates was reflected in advance in new or refixed mortgage loan agreements, household demand for mortgage loans remained high in 2017 due to uncertainty about future developments. Among the key factors influencing the interest in mortgage loans by households in 2018 will be both possible changes in CNB and bank rates, as well as expectations of the impacts of the CNB's planned regulation concerning the requirements for the mortgage loan clients' share of own funds, income and ability to service debts. Other significant factors may still include the development of property prices, which continues to reduce the availability of residential property ownership in a number of regions. The reason is that the property price growth in 2017 was among the highest in the EU and was almost double that of the EU average[38]. The current optimism associated with the economic development, labour market situation and the overall low rate of indebtedness of Czech households may then be among other factors that will contribute to further increase in the demand for loans for residential property.

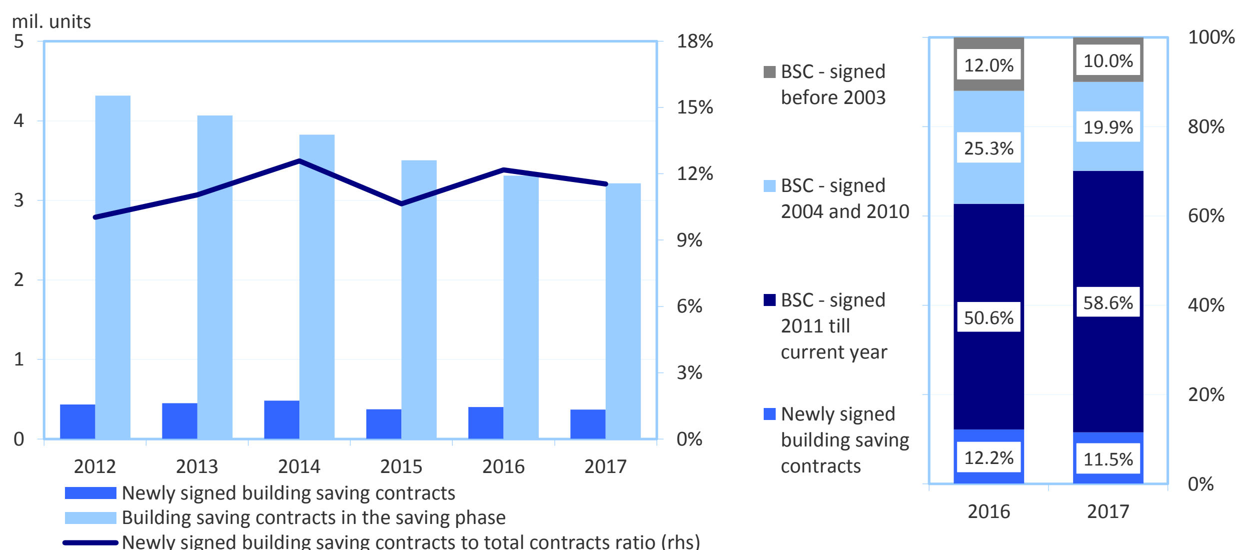
5.7 Building Savings Banks

Building societies in the Czech Republic saw a relatively successful year in terms of lending activity, related to increased growth of new loans and renewed growth of the total volume of loans. However, interest in the building savings product declined, as the number of new building savings contracts (370.7 thousand at the end of 2017) fell by 8.1% year-on-year, thus dropping to the lowest level over the monitored period (Figure 5.9). In terms of annual renewal of the contracts portfolio in the savings phase, that is, of the share of new contracts in the total number of building savings contracts, there was a decrease from 12.2% to 11.5%. The total number of contracts in the savings phase (Graph 5.11), which has been decreasing for 14 consecutive years, decreased again year-on-year to 3.2 million, although the year-on-year decline rate decreased by 2.5 pp to 3.0%. There has been a consistent trend of "rejuvenation" of the contract portfolio, as more than 70% of all contracts were concluded after 2011 (i.e. under the current conditions of state contribution of CZK 2,000). A fifth of the contracts were concluded between 2004 and 2010 (i.e. under the conditions of maximum state contribution of CZK 3,000). The remaining tenth of contracts were concluded prior to 2004 (i.e. under the conditions of maximum state contribution of CZK 4,500). This trend has long been influenced by the fact that building societies may, with certain statutory limitations, increase the interest rates on deposits or otherwise amend the conditions of their fee policies after the end of the minimum saving period[39], which they actually do.

[38] According to Eurostat, the prices of residential property in the Czech Republic purchased by households grew by 8.4% year-on-year at the end of 2017. Growth was faster only in IE, PT, SI and NL. The EU average was 4.5%.

[39] The minimum saving period is one of the prerequisites for meeting the conditions for payment of state contribution, and it is a mandatory period for which clients have to save. It has been 6 years since 2004, before it was 5 years.

Graph 5.9: Number of building savings contracts (BSC)[40]



Source: Building savings banks, MoF calculations

The total amount saved by building savings participants also saw a year-on-year decline for the fifth consecutive year, amounting to CZK 358.9 billion at the end of 2017 (Table 5.10). Again, however, the year-on-year rate of decrease in the amount saved fell from 5.6% to 1.0%. This decrease in the amount of funds placed in building societies is also associated with a further decrease in the amount of state contributions paid. In 2017, it decreased by 7.8% year-on-year to CZK 3.9 billion, breaking the CZK 4 billion threshold, while the last time it was under this threshold was twenty years ago.

Table 5.10: Main indicators for the building savings bank sector

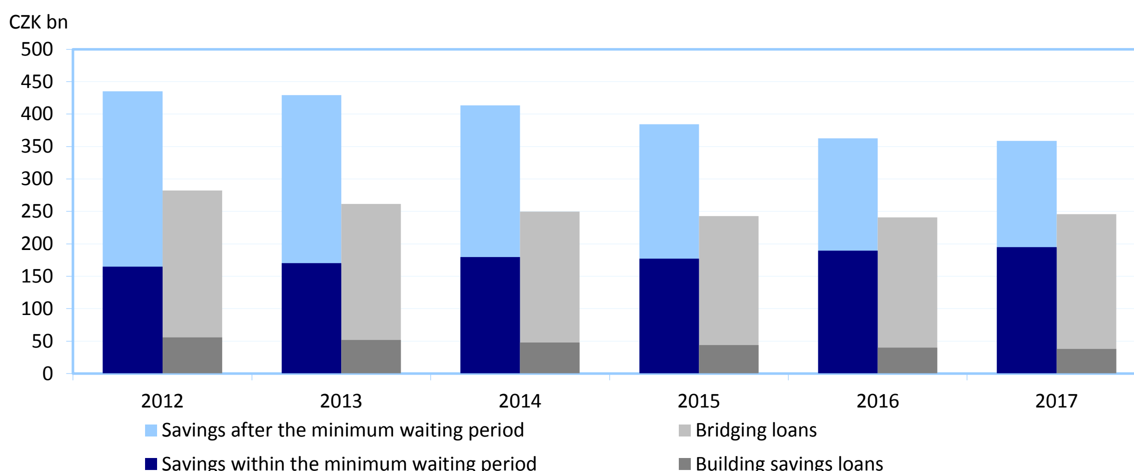
As at 31 Dec	2012	2013	2014	2015	2016	2017
Loans (CZK bn)	282.2	261.4	249.6	242.7	240.6	245.7
Savings (CZK bn)	435.0	429.1	413.6	384.2	362.6	358.9
Loan–to-savings ratio (%)	64.9	60.9	60.4	63.2	66.4	68.5

Source: Building savings banks

Savings of building savings participants can be divided into two groups according to their maturity, as shown by the blue shades of the columns in Figure 5.10. Savings made during the first six years of the contract, the "savings in the minimum saving period", represent a certain form of term deposits, because in the event of withdrawal the participant loses the state contribution. Conversely, savings made after this period can be classified as non-term deposits which can be withdrawn together with state contribution within a relatively short time. Trends in the volume of savings after the minimum saving period have been consistently declining and, while in 2016 the 50% threshold was crossed, at the end of 2017 the share of these savings in total savings accounted for 45.7%.

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

Graph 5.10: Volume of loans and savings by maturity



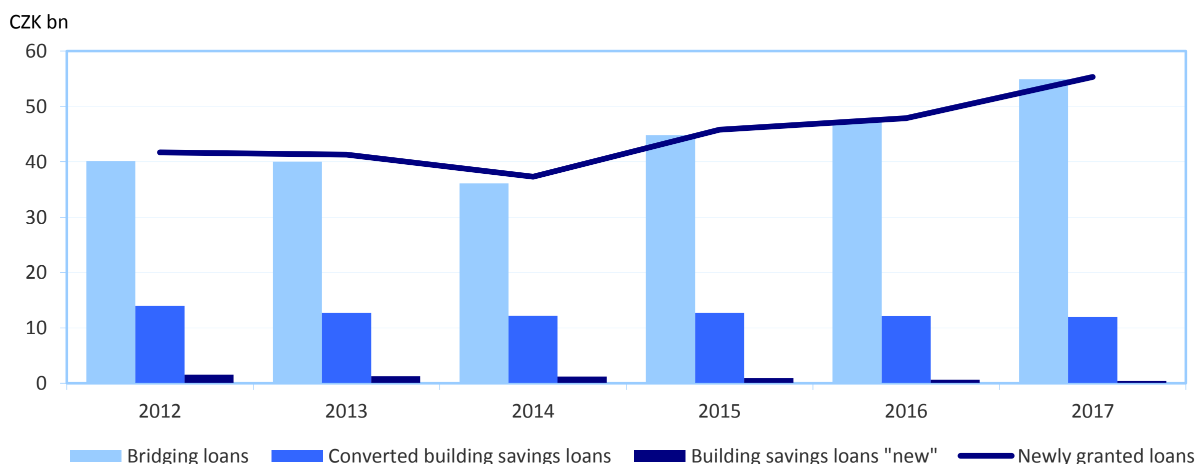
Source: Building savings banks

After six years of decreasing trend of total volume of loans, building societies reached the value of CZK 245.7 billion in 2017 (i.e. a year-on-year increase of 2.1%). This was mainly due to bridging loans, which increased the year-on-year growth rate from 0.9% to 3.4%, standing at CZK 207.5 billion at the end of 2017. The second factor that contributed to the overall increase was the development of building savings loans, whose year-on-year decline decreased by 4.4 pp to 4.5% and which stood at CZK 38.2 billion at the end of 2017.

The increase in the total volume of loans, together with a slight decrease in the amount saved, resulted in an increase in the loans-to-savings ratio of 2.1 pp to 68.5% (Table 5.10). This indicator, which declined after 2010, grew year-on-year by about 23 pp in the last three years and thus reached its highest value in the history of building savings in 2017.

The volume of newly granted loans[41] worth CZK 55.3 billion (Graph 5.11) has been growing since 2015 and continued to grow also in 2017. Year-on-year growth of 15.6% represented an acceleration of more than 11 pp. On the contrary, the number of new loans decreased year-on-year by 6.2% to 72.7 thousand. Traditionally, dominant in the credit activity of building societies were bridging loans, with almost 70 thousand new loans taken out in 2017 with a total value of CZK 54.9 billion. On the other hand, interest in building savings loans has declined since 2010, reaching 2.7 thousand in 2017 with a volume of CZK 0.4 billion.

Graph 5.11: New loans in the building savings bank sector

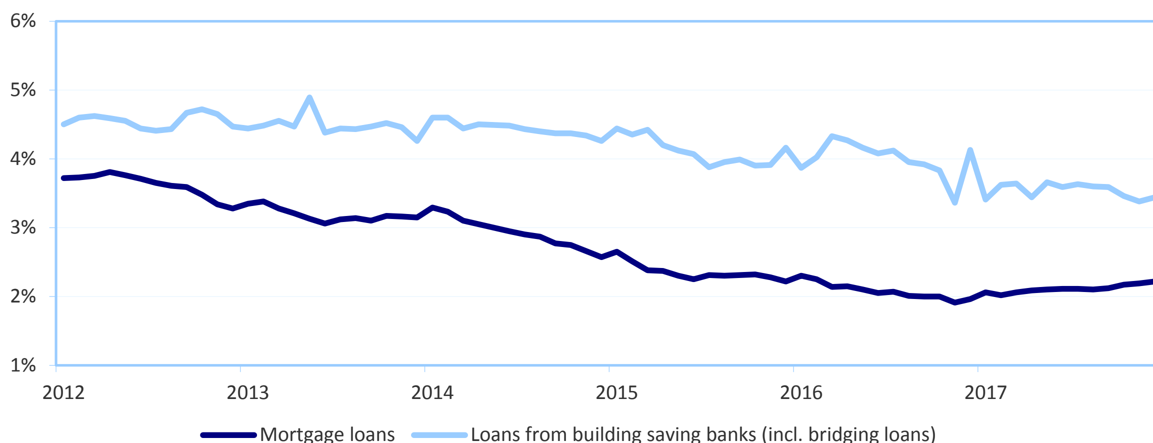


Source: Building savings banks

[41] New loans are the sum of new bridging loans (the light blue column in Graph 5.11) and new building savings loans (the dark blue column in Graph 5.11). A special category is “converted” building savings loans (these are not new loans), which were drawn by debtors as bridging ones, and at a certain point (once the allocation conditions have been met) they are converted into standard building savings loans with a new repayment schedule and under usually more favourable interest conditions.

As in other loan segments, the average interest rates on new loans from building societies[42] continued the downward trend in 2017 (Graph 5.12). Although the decline was slower than in 2016, the interest rate on new loans fell by 0.69 pp to 3.4% year-on-year. For the rivalling mortgage loans, the trend was entirely opposite when their average interest rate at the end of 2017 rose to 2.2%. As a result, due to the year-on-year growth of 0.26 pp, interest rates on mortgage loans returned to the same level as around the turn of the years 2015 and 2016.

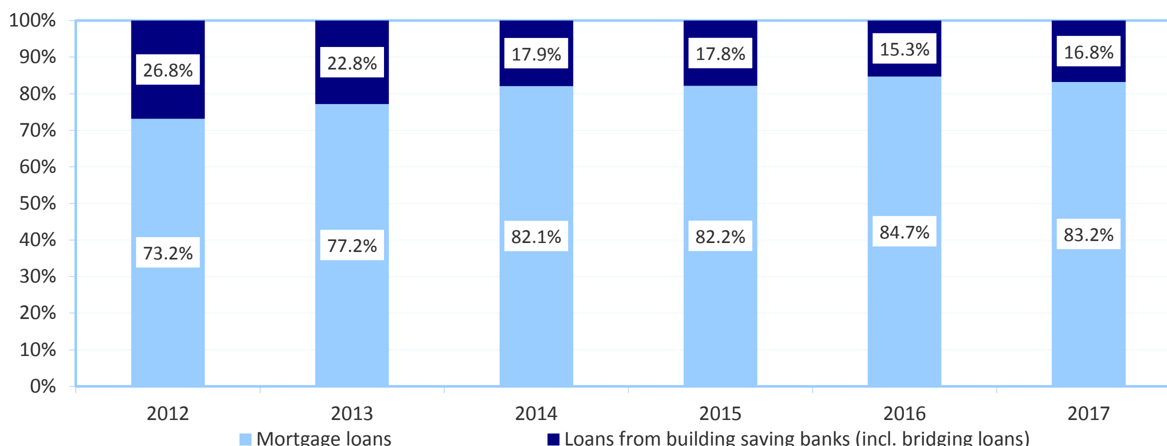
Graph 5.12: Development of interest rates from new loans to households for residential property purchase



Source: CNB–ARAD

Developments in interest rates on loans for residential property favouring building societies helped to increase their share in this loan segment to 16.8% in 2017. However, households continued to strongly prefer mortgage loans, whose share in new loans for residential property in 2017 (83.2%) did not exceed 2016 (Graph 5.13).

Graph 5.13: Shares of new loans to households for residential property purchase granted by banks and building savings banks



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

More detailed information about the building savings bank sector is updated and published quarterly on the MoF's website at www.mfcr.cz (refer also to Table P2.2 in Appendix 2).

[42] The line in Graph 5.12 depicting the interest rates on new loans from building savings banks includes the interest rates on new bridging loans and building savings loans.

5.8 Credit Unions

The most important event in 2017 in the sector of savings and credit unions (credit unions) was the successful transformation of the Záložna CREDITAS, spořitelní družstvo, which transformed into Banka CREDITAS a.s. on 1 January 2017. As a result of this change, all indicators were affected in a year-on-year comparison (Table 5.11). However, without taking this transformation into account, the sector reported steady development. There were 10 entities operating on the market, of which the two largest credit unions represented for approximately 64.8 % of the sector in terms of the asset size at the end of 2017.

Table 5.11: Basic indicators of the credit unions sector[43]

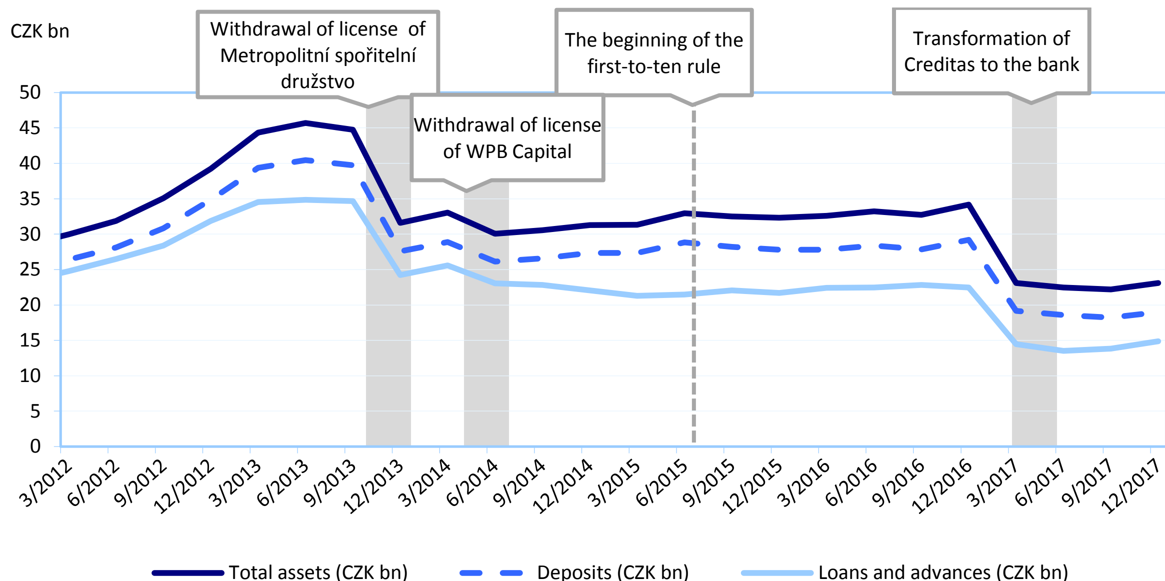
As at 31 Dec	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Number of members of credit unions (thousands)	54.4	53.6	57.2	51.2	51.6	30.8	-20.7	-40.2
Total assets (CZK bn)	39.3	31.6	31.3	32.3	34.2	23.1	-11.1	-32.4
Loans and advances (CZK bn)	31.9	24.2	22.1	21.7	22.5	14.9	-7.6	-33.8
Deposits (CZK bn)	34.8	27.6	27.4	27.8	29.2	19.0	-10.2	-35.0
Loan-to-deposit ratio (%)	91.4	87.9	80.6	78.1	76.9	78.3	1.4	1.8
Share of quick assets to total assets (%)	14.3	18.8	23.8	26.6	25.9	30.1	4.2	16.1
NPL ratio (%)	7.8	19.0	22.7	21.0	19.4	20.3	0.9	4.9
Coverage ratio for NPLs (%)	16.4	16.6	18.8	18.5	17.8	12.9	-4.9	-27.6
Total capital ratio (%)	13.3	14.3	13.5	15.4	16.2	19.0	2.8	17.5
Profit/loss before tax (CZK mn)	392.1	37.3	86.8	60.2	-13.0	-51.0	-38.0	291.7
Return on Tier 1 capital (%)	-	-	0.5	0.2	-0.7	-1.6	-0.9	121.1

Source: CNB–ARAD, MoF calculations

The total balance sheet of the sector decreased year-on-year by 32.4% to CZK 23.1 billion. Despite this decline (Graph 5.14), which was due to the transformation of the CREDITAS into a bank, the level of other credit unions' assets in 2017 increased only slightly by CZK 0.7 billion. By the end of 2017, the assets of the credit unions sector thus accounted for only 0.3% of the assets of the credit institutions sector. The volume of deposits in credit unions fell year-on-year by CZK 10.2 billion to CZK 19.0 billion, but deposits remained unchanged throughout the year. There were similar developments in new loans and receivables, which dropped by CZK 7.6 billion to CZK 14.9 billion year-on-year; there were no significant changes throughout the year. The transformation of CREDITAS into a bank resulted in the reversal of loan-to-deposit ratio, which had been consistently declining to 76.9% in 2016. By the end of 2017, however, it rose to 78.3%.

[43] For 2012 and 2013, no profitability data are available and interpretable for credit unions because of non-uniform fiscal years of the individual entities.

Graph 5.14: Total assets, deposits and loans and advances



Source: CNB–ARAD

In terms of ratios, there was a slight deterioration of NPL ratio. This indicator, reflecting the credit risk in the sector, increased year-on-year by 0.9 pp to 20.3%, i.e. stood at approximately 17 pp above NPL ratio of the banking sector. There was also a negative development of coverage ratio of non-performing loans, which dropped by 4.9 pp to the all-time low of 12.9% in the monitored period from 2012. On the other hand, positive development were seen in the total capital ratio, which increased by 2.8 pp to 19.0%, thus not only hovering safely above the regulatory minimum, but also reaching all-time highs. Positive developments were also seen in the indicator of quick assets to total assets, which increased by 4.2 pp to 30.1%. According to preliminary data, the entire sector economic results before tax ended with loss of CZK 51.0 million, almost four times as high compared to 2016. In the future similar developments can be expected as in the case of the banking sector. Any further transformations of credit unions into banks by which the credit unions would meet the legal requirement concerning the balance sheet applicable as of 1 January 2018 would naturally lower the significance of the sector.

5.9 Non-Bank Financing Providers

Non-bank financing providers are an alternative to credit institutions in terms of options available for loan financing. A number of these entities are linked by ownership and financially with the banking sector through some of the existing financial groups. The balance sheet total (Table 5.12) of this part of the financial market grew by 6.5% year-on-year to CZK 408.3 billion, the highest value since the end of 2009. After stagnation during 2011–2015, the growth was more than 5% for the second consecutive year. Nevertheless, the overall balance sheet of this sector has consistently represented less than 10% of the banking sector's assets, and the importance of the sector has been gradually declining in this respect.

In terms of client orientation, non-bank providers are a significant alternative source of funding for both business and retail needs. The product portfolio partly corresponds to the structure of bank loans (installment sale, non-purpose loan, credit cards, revolving products). However, there are also some specific products or distribution models (leasing, peer to peer loans, reverse mortgages or various forms of online short-term borrowings). In recent years, there has been a significant increase in operating lease. This was formerly the domain of corporate financing, but currently demand for it is growing among retail clients, especially in the segment of passenger cars. However, its structure does not constitute a classical credit relationship involving a future change in the ownership of the funded item and is therefore not included in Table 5.13, but the assets in question may possibly be part of the total assets of the financing providers.

Table 5.12: Structure of assets by segments in the non-bank financing providers sector

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Total assets	346.3	342.1	354.5	350.0	383.4	408.3	24.9	6.5
Volume of total assets								
Financial leasing companies	259.3	253.1	261.4	280.9	301.4	323.1	21.6	7.2
Other lending companies	70.5	70.3	72.2	49.8	59.5	59.9	0.5	0.8
Factoring and forfaiting companies	16.6	18.7	20.9	19.3	22.5	25.3	2.8	12.5
Relative share of the sector's assets (%)								
Financial leasing companies	74.9	74.0	73.7	80.3	78.6	79.1	0.5	0.6
Other lending companies	20.3	20.6	20.4	14.2	15.5	14.7	-0.8	-5.4
Factoring and forfaiting companies	4.8	5.5	5.9	5.5	5.9	6.2	0.3	5.6

Source: CNB–ARAD, MoF calculations

The volume of loans provided (Table 5.13) grew at a similar pace as the balance sheet total (by 6.9 %) to CZK 303.5 billion. The share of loans to total assets (74.3%) has consistently been over 70% and has remained almost unchanged over the last three years. Most (96.4%) of the total loans volume was provided to residents, of which more than 78.5% consisted of borrowings to non-financial corporations and 20.8% were loans to households. Borrowings to non-financial corporations were also the main source of growth in total loans volume when, their volume grew by 9.7% year-on-year, with financial leasing accounting for 82.9% of the growth. By contrast, borrowings to households declined by 2.8%.

The sector of non-bank financing providers is usually broken down into three sub-segments: financial leasing companies, other lending companies, and factoring and forfaiting companies. The breakdown of the sector's balance sheet into sub-segments is relatively stable and did not change fundamentally in 2017. A slight increase was observed in the share of financial leasing companies (by 0.5 pp to 79.1%) and factoring and forfaiting companies (by 0.3 pp to 6.2%). On the other hand, the volume of other lending companies' assets remained virtually unchanged year-on-year, reflecting a slight decrease in their share of total assets in the sector (0.8 pp to 14.7%).

Table 5.13: Loans by segments in the non-bank financing providers sector

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Loans provided	256.0	246.9	255.8	258.1	284.0	303.5	19.5	6.9
Volume of loans provided								
Financial leasing companies	188.3	176.4	183.1	204.2	219.0	234.5	15.5	7.1
Other lending companies	54.6	54.6	54.6	37.1	44.9	45.8	0.9	2.1
Factoring and forfaiting companies	13.7	16.0	18.1	16.8	20.1	23.2	3.1	15.4
Relative share of the sector's loans (%)								
Financial leasing companies	73.4	71.4	71.6	79.1	77.1	77.3	0.1	0.2
Other lending companies	21.3	22.1	21.3	14.4	15.8	15.1	-0.7	-4.5
Factoring and forfaiting companies	5.3	6.5	7.1	6.5	7.1	7.6	0.6	8.0

Source: CNB–ARAD, MoF calculations

Financial leasing companies achieved a similar year-on-year growth in asset volume (by 7.2%) for the third consecutive year. The balance sheet size consequently exceeded the record values of 2008 and reached a new all-time high of CZK 323.1 billion. The growth rate of new loans (7.1%) remained virtually unchanged

year-on-year. There has been a consistent slight increase in the share of loans to non-financial corporations, which reached 85.6% at the end of 2017.

Other lending companies showed only a slight increase in the volume of assets (by 0.8% to CZK 59.9 billion) and borrowings (by 2.1% to CZK 45.8 billion). By contrast, in 2016 both categories grew by about a fifth. A long-term comparison shows that the volume of assets in this segment was only about half the maximum from before the global financial crisis.

Factoring and forfaiting companies saw the fastest rate of growth of the balance sheet total (by 12.5% to CZK 25.3 billion). Thanks to this, they managed to almost equal the maximum values achieved at the end of 2007 and during 2008. The growth in loan volume slowed only slightly to 15.4% (by 4.2 pp). A particularity of this segment stemming from its product structure is that during the monitored period from 2012, more than 96 % of loans provided were short-term loans to resident non-financial corporations with a maturity of less than one year.

5.10 Household Indebtedness

Households have long been a key client segment, which therefore requires a broader look beyond its relation to the banking sector itself. The total household indebtedness with regard to both bank as well as non-bank financial institutions was almost CZK 1.6 trillion at the end of 2017 (Graph 5.15). This represents a year-on-year increase of 7.0% (CZK 105 billion). Indebtedness thus kept growth dynamics similar to that of 2016. A higher increase in debt volume was last seen in 2008.

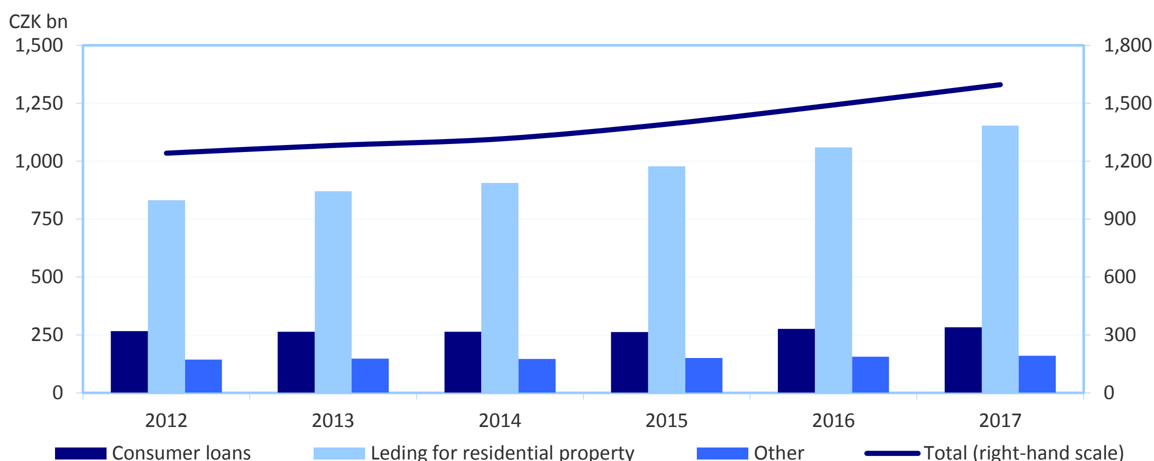
The debt of households has consistently been mostly related to loans for residential property. In absolute terms, housing-related debt increased by CZK 93.5 billion to CZK 1.15 trillion[44], the largest increase since 2008. The increment of consumer credit by CZK 7.1 billion to CZK 283.1 billion was roughly half that in 2016. Nevertheless, it was the second highest increase in the monitored period since 2012. Debt growth within the “other loans” category (mainly business loans to self-employed persons) amounted to CZK 4.4 billion and was similar to that in 2016 (CZK 4.9 billion). This category consequently saw the highest level of debt so far (CZK 159.9 billion).

In terms of dynamics, the growth rate of loans for residential property increased to 8.8% (by 0.5 pp). This segment thus saw a year-on-year growth rate of around 8% for the third consecutive year. At the same time, it was the highest year-on-year relative increase since 2009. The growth rates of the remaining two segments were lower than those of loans for residential property, and witnessed a year-on-year slowdown. Consumer loan dynamics was half that a year ago (by 2.6%). The category of “other loans” grew by almost 3%, similar to the previous two years.

As mentioned above, loans for residential property have consistently been the most important component of household debt. In 2017, their share increased by 1.2 pp to 72.2%, and by 5.3 pp during the monitored period. This is due to consistently higher increments in this segment compared to other household indebtedness components. This is also partially caused by the fact that housing loans are usually characterised by slower repayment due to their longer average maturity.

[44] These data differ from indicators in Chapter 5.6 as they include not only mortgage loans but also all loans from provided by building societies and consumer loans (all for the purpose of purchasing or investing in loans for residential property). Another reason for the difference in data is inclusion of loans provided to households (i.e. individuals, sole traders, associations of apartment owners and non-profit institutions serving households) from non-bank financing providers.

Graph 5.15: Total household indebtedness[45]

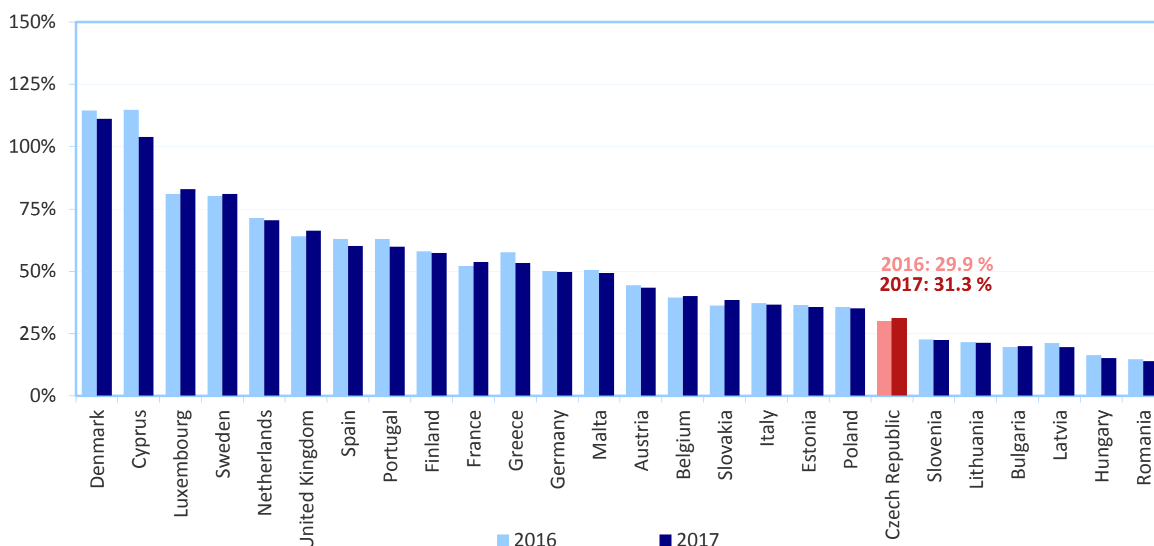


Source: CNB–ARAD, MoF calculations

The level of household indebtedness[46] relative to the GDP, which indirectly also reflects the household income, and thus their ability to fulfill their financial obligations, continued to be relatively low (31.3% of GDP) in the Czech Republic compared to the rest of the EU (Graph 5.16).[47] In 2017, however, it again increased year-on-year (by 1.3 pp), the increment being the fifth highest in the EU. Total household debt thus grew faster than GDP, even though the economy was in a phase of a strong economic recovery. In terms of cross-country comparisons, the most pronounced downward trend in household indebtedness was reported by the countries most affected by the global financial crisis. In 2017, it was mainly Cyprus, Greece, Spain and Portugal.

Information on the development of average interest rates on bank loans and APRC on loans to households is provided in Chapter 5.4.

Graph 5.16: Volume of household indebtedness in selected countries in the EU relative to GDP



Source: ECB, Eurostat, MoF calculations

[45] The data for loans provided by building savings banks represent the sum of the total value of bridging loans and “standard” loans provided by building savings banks.

[46] According to ECB data on loan volumes provided to households as reported in the balance sheets of monetary financial institutions, excluding the European System of Central Banks.

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

6 CAPITAL MARKET

6.1 Summary of the Development on Global Capital Markets

There have been a number of factors that affected the development of stock markets worldwide and generally led to the growth of individual stock indices. Consequently, favourable global development was also reflected to some extent in the Czech Republic. The MSCI ACWI Standard, which includes more than 2,400 stock titles in the developed and emerging economies of the world, saw a year-on-year growth of 21.6% at the end of 2017, up 16 pp from 2016.

Among the main factors influencing the development of the world stock indices in 2017 were the growing corporate profits, generally favourable global economic developments and a very modest rise in central bank interest rates (see Chapter 1), which was reflected in investors' considerable optimism, but also possible risk under-estimation. More specific factors included the diminished concerns about the growth of the Chinese economy.

Major stock indices in the selected countries, calculated in domestic currencies, mostly reported higher growth than in 2016 (Table 6.1). Stocks in the US, represented by the S&P 500 stock index, grew by 19.4% year-on-year. Another strong growth was recorded by the Japanese stock index Nikkei 225, which grew by 19.1% year-on-year. The index of largest and most liquid stocks in Europe (Euronext 100) rose by 10.6%. The only stock index of the selected countries which recorded a year-on-year loss was the Russian MOEX, which fell by 5.5%, mainly due to tighter sanctions against Russia and volatile oil prices. With regard to stock indices in Central European countries, the Austrian ATX index fared best with 29.1% growth. The second fastest growing stock index was the Polish WIG 20 (26.1%) and the Hungarian BUX (23.0%). The lowest growth was recorded by the Slovak SAX, which rose only 2.2% year-on-year.

Table 6.1: Developments in the annual performance of the global stock index and the countries' indices

As at 31 Dec (%)	Index	2012	2013	2014	2015	2016	2017
World	MSCI ACWI	13.4	20.3	2.1	-4.3	5.6	21.6
United States	S&P 500	13.4	29.6	11.4	-0.7	9.5	19.4
Eurozone	**Euronext 100**	**14.8**	**19.0**	**3.7**	**8.0**	**3.0**	**10.6**
China	SSE Index	3.2	-6.7	52.9	9.4	-12.3	6.6
Japan	Nikkei 225	22.9	56.7	7.1	9.1	0.4	19.1
Germany	DAX	29.1	25.5	2.7	9.6	6.9	12.5
United Kingdom	FTSE 100	5.8	14.4	-2.7	-4.9	14.4	7.6
Russia	MOEX	5.2	2.0	-7.1	26.1	26.8	-5.5
Poland	WIG 20	20.8	-7.3	-4.3	-18.9	4.7	26.1
Austria	ATX	26.9	6.1	-15.2	11.0	10.6	29.1
Czech Republic	**PX**	**14.0**	**-4.8**	**-4.3**	**1.0**	**-3.6**	**17.0**
Hungary	BUX	7.1	2.2	-10.4	43.8	33.8	23.0
Slovakia	SAX	-10.8	2.9	12.4	31.5	9.0	2.2

Source: Market organizers, MoF calculations

Note: Data represents year-on-year changes of closing prices of given indices.

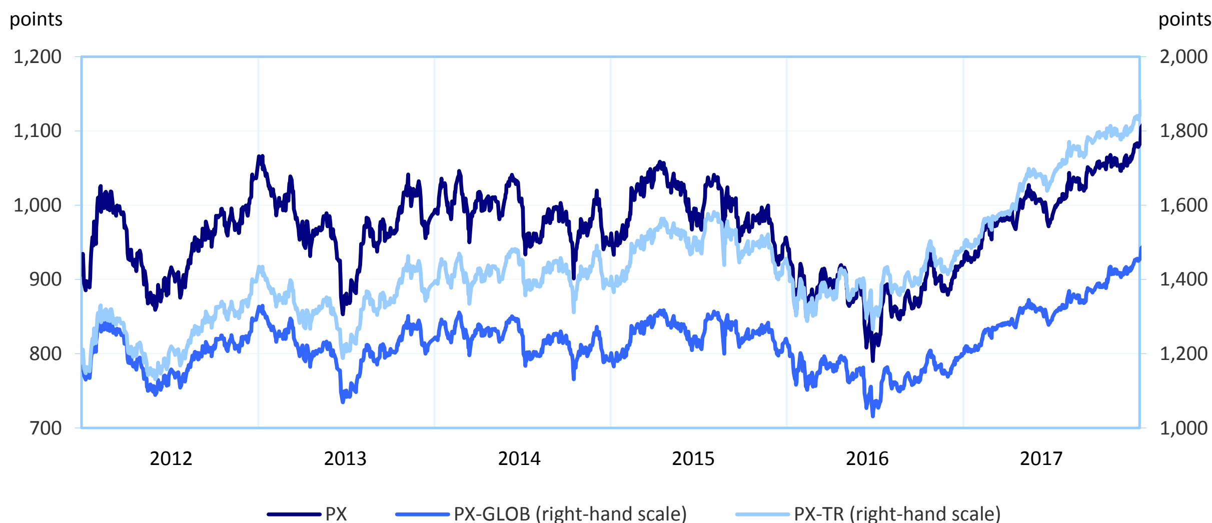
6.2 Regulated and OTC Market in the Czech Republic

In terms of appreciation, the PX stock index recorded one of the best results in 2017 during the monitored period (Figure 6.1). Year-on-year, it grew by 17% to 1,078, which was the highest value since 2011. The growth of the main Czech stock index in 2017 roughly corresponded to the dynamics of the world's leading stock indices, which were driven on a wave of optimism in both the economy and the financial markets. The PX-Glob stock index, which includes all traded stocks on the Prague Stock Exchange (PSE), grew even faster than the main PX index, recording a year-on-year increase of 21.0%. In terms of market capitalization, the market saw year-on-year growth of CZK 208 billion to 1.25 trillion at the end of 2017. In terms of investors who monitor not only the appreciation, but also the dividend yields, one should follow the PX-TR stock index, which not only

reflects the price development of the most liquid stocks over time, but also takes into account the dividend yield. This index recorded a year-on-year increase of 23.6%.

The most important event in 2017 was the launch of a new market called START, which is intended primarily for medium-sized Czech companies with market capitalization or company value of over EUR 1 million. The creation of this market reflects an attempt to make the capital market available to smaller entities in order to obtain funding sources or strategic partners. However, a significant positive impact of this new market on the overall development of the stock market can only be expected in the coming years.

Graph 6.1: Daily values of PSE indices[48]



Source: PSE

In contrast to stock index performance, the volume of stock exchange trades has been consistently decreasing (Table 6.2). Depending on the type of asset, stock trading was dominant on regulated market (95.5% of all trades). In terms of volume of trades of stocks, only CZK 138.8 billion was traded in 2017, i.e. CZK 29.2 billion less than in 2016. The total volume of trades has been consistently in decline (from 2012 to 2017 by 82.8%), even though at the end of the year the stock prices expressed by the PX index were at their peak over the monitored period. As in previous years, the highest volume of trades was recorded by large cap companies such as ČEZ, a.s., Komerční banka, a.s. and MONETA Money Bank, a.s. Since 2013, bond transactions at stock exchanges made only a fraction of total trades. This is related to the new definition of “stock exchange trades” and the introduction of the Xetra trading system. As a result, “block trades” were cancelled and replaced by OTC trades. These trades have then been reported in the statistics of the Central Securities Depository since 2013. Trades of structured products, trades of investment stocks and investment funds certificates represented only a fraction of the trades on the PSE.

Table 6.2: Volume of exchange trades on the PSE

Per year (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Stocks	250.6	174.7	153.5	167.9	168.0	138.8	-29.2	-17.4
Debt securities	594.2	1.9	8.2	5.1	4.2	6.2	2.1	49.5
public sector	566.0	0.0	0.0	0.0	0.0	0.0	0.0	-
corporate sector	9.4	1.9	8.2	5.1	4.2	6.1	2.0	47.8
financial sector	18.7	0.0	0.0	0.0	0.0	0.1	0.1	-
Structured products[49]	0.1	0.1	0.6	0.3	0.1	0.2	0.1	79.9
Investment funds	0.0	0.0	0.0	0.0	0.1	0.1	0.0	39.3
Total	844.8	176.8	162.3	173.3	172.4	145.3	-27.1	-15.7

Source: PSE, MoF calculations

[48] The data represents the daily closing values of the indices.
[49] The structured products include certificates and warrants.

In terms of the volume of OTC trades (Table 6.3), the PSE saw an increase in trading in all segments, contrarily to 2016. The biggest increase was in the bond segment, namely of CZK 137.1 billion to CZK 548.4 billion. According to more detailed statistics, this was mainly an increase in the category of Czech government bonds, probably in connection with the expected termination of the unilateral exchange rate commitment (see Chapter 1). Increase was also seen in the case of marginal OTC stock trades (of 96.7% to CZK 2 billion). In general, stocks have consistently been traded on the stock exchange market and bonds on OTC markets.

Table 6.3: Volume of OTC trades on the PSE

Per year (CZK bn)	2013	2014	2015	2016	2017	Year-on-year change	
						Abs.	(%)
Stocks	10.1	5.0	4.5	1.0	2.0	1.0	96.7
Debt securities	561.0	440.1	547.6	411.3	548.4	137.1	33.3
Total	571.1	445.1	552.1	412.3	550.4	138.1	33.5

Source: PSE, MoF calculations

The number of registered issues traded on the PSE in 2017 decreased by 6.5% to 232 instruments (Table 6.4). The largest decline occurred in the structured products segment, followed by investment fund and stock instruments. The only slightly growing segment in terms of the number of instruments was bonds. Corporate bonds are a consistently growing segment; this growth is consistent with the volume of long-term bonds issued by non-financial corporations (Graph 6.2).

Table 6.4: Number of registered issues on the PSE

As at 31 Dec	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Stocks	28	26	23	25	25	23	-2	-8.0
Debt securities	98	110	116	112	115	116	1	0.9
public sector	20	21	24	26	25	25	0	0.0
corporate sector	27	32	38	42	49	54	5	10.2
financial sector	51	57	54	44	41	37	-4	-9.8
Structured products	30	103	68	89	71	61	-10	-14.1
Investment funds	0	0	0	17	37	32	-5	-13.5
Total	156	239	207	243	248	232	-16	-6.5

Source: PSE, MoF calculations

The volume of trades on another Czech stock exchange – the RM-System (RMS), which mainly focuses on retail investors, was significantly lower than PSE in the previous years. In 2017, there was a further decrease in the volume of all monitored sub-categories of trades (Table 6.5), for example the volume of stock exchange trades fell by CZK 306.8 million to CZK 3,167.7 million. Similarly, the volume of bond transactions fell by CZK 3.3 million to CZK 8.8 million. In 2017 investment certificates were not traded again on RMS.

Table 6.5: Volume of exchange trades on the RM-System

Per year (CZK mn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Stocks	6,053.4	4,875.8	4,129.9	4,085.4	3,474.4	3,167.7	-306.8	-8.8
Debt securities	2.2	14.4	62.7	8.7	12.2	8.8	-3.3	-27.4
Certificates	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-
Total	6,055.7	4,890.3	4,192.5	4,094.1	3,486.6	3,176.5	-310.1	-8.9

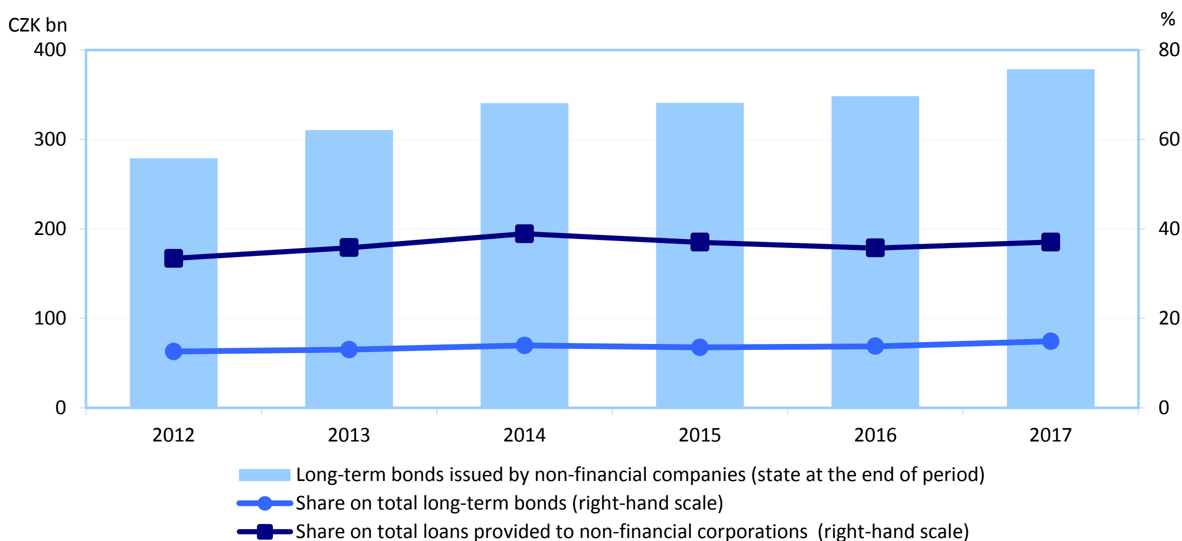
Source: RMS, MoF calculations

The overall view of business activity on the regulated market is relatively unflattering, as the volume of stock exchange trades decreased significantly throughout the monitored period (by 82.5%). The factors that caused this decline include the persistent low interest rate environment (see Chapter 1.2) leading to a reduction in the potential relative yields of individual asset categories, the impact of fees for brokering capital market

investments, the dominance of the banking sector on the Czech financial market, and high fixed costs of new stock issuance on stock exchanges for companies. However, the decline in trading volume is a global phenomenon. Its specific causes are subject to discussions, and include structural changes in the financial markets and the reform of the prudential regulation of the financial sector.

As can be seen in Graph 6.2, non-financial corporations in the Czech Republic, i.e. production and trading companies, were gradually increasing the volume of funds raised through bond issues within the monitored period to a total of CZK 378.5 billion at the end of 2017. Of the total volume of issued bonds, the bonds issued by non-financial corporations accounted for 14.9%. Most (around 60.4%) long-term bonds were government bonds, followed by 24.8% of bonds held by financial institutions. For the sake of comparison, at the end of 2017 the total volume of loans provided by banks to non-financial corporations in the Czech Republic was CZK 1,022.0 billion (see Chapter 5.5). At the end of 2017, therefore, funding sources provided through the domestic bond market corresponded for only 37% of the volume of loans provided by the domestic banking sector.

Graph 6.2: Long-term bonds issued by non-financial companies[50]



Source: CNB–ARAD, MoF calculations

Box 6.1: National Strategy for the Development of the Capital Market in the Czech Republic and cooperation with the World Bank

The Ministry of Finance, in cooperation with the Czech Capital Market Association (AKAT), has been preparing the National Strategy for the Development of the Capital Market in the Czech Republic since 2015, which aims to present the strengths and weaknesses of the capital market and to outline the possible future direction of the capital market operation while proposing changes to support it. In October 2016, the MoF asked the World Bank (WB) to conduct an analysis of the capital market in the Czech Republic and identify obstacles to its further development. WB's results are contained in the final report[51] published on 2 October 2017, and will be further reflected in the forthcoming National Strategy for the Development of the Capital Market in the Czech Republic.

The WB report contains a number of measures to contribute to promoting sustainable economic growth and increasing the competitiveness of the economy through a well-functioning capital market, i.e. aim to increase the attractiveness of the domestic capital market, its depth, breadth and liquidity. The most significant proposed measures include the introduction of a personal pension account and multi-stage investment instruments register, the support of private equity and venture capital funds, financial education and the improvement of information on the capital market, including the translation of legislation.

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

[51] More information available on: https://www.mfcr.cz/assets/cs/media/Zprava_2017-10-02_CZ-CM-Assessment-Report-Final.pdf

The forthcoming National Strategy for the Development of the Capital Market in the Czech Republic will be finalized in 2018, also with the help of the WB, and subsequently submitted for approval to the Government of the Czech Republic. The strategy will contain dozens of measures which, in line with the analysis and the individual principles, will be categorized into four groups: measures to support households-investors, businesses-issuers, financial intermediaries and state support. The government should be regularly informed about the progress towards these measures, as well as the monitoring of the set objectives. Given that the capital market and its governing legislation are constantly evolving and there are a number of new trends, the strategy itself should be subject to regular updates.

In 2017, Power Exchange Central Europe (PXE), formerly known as the Prague Energy Exchange, had one of its most successful years in terms of growth in total trading volume, as it grew by 88.6% to EUR 2,303.4 million (Table 6.6). This was mainly due to the inclusion of PXE trading in a new trading system operated by its major shareholder, European Energy Exchange AG, resulting in a significant increase in the number of market participants. The most important segment was the wholesale market, which accounted for 90.5% of the volume of all trades. The remaining part consisted of end-user contracts that have been trading on PXE since 2014.

Table 6.6: Trading volumes on the PXE

Per year (EUR mn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Wholesale	943.6	1,161.2	788.3	875.0	970.2	2,083.6	1,113.4	114.8
power contracts	943.6	1,161.2	771.4	813.9	922.7	2,004.6	1,081.9	117.3
gas contracts	-	-	16.8	61.1	47.5	79.0	31.5	66.3
Retail	-	-	8.2	304.0	251.1	219.8	-31.3	-12.5
power contracts	-	-	8.2	157.4	132.6	135.1	2.5	1.9
gas contracts	-	-	0.0	146.6	118.4	84.6	-33.8	-28.5
Total	943.6	1,161.2	796.5	1,179.0	1,221.3	2,303.4	1,082.1	88.6

Source: PXE, MoF calculations

6.3 Investment Firms and Asset Management

Investment Firms

The positive development of the global and national economy was reflected in the Czech capital market not only in the growing value of the PX index, but also in the investment firms sector. All of the monitored indicators, i.e. the number of clients (see Chapter 4), the volume of clients' assets, the volume of managed assets (Table 6.7) and the volume of trades (Table 6.8) increased year-on-year and saw their highest values over the monitored period.

In terms of the number of clients[52], the sector grew by 6.9% year-on-year to approximately 1.3 million. The growth rate was 2 pp higher than in 2016, and the number of clients increased by 53% over the monitored period. In terms of the structure, this long-term growth was attributed to the increase in banking investment firms (by 278.3 thousand clients) and non-banking investment firms (by 187.4 thousand clients). Compared to the previous year, the volume of clients' assets increased by 10.4% to CZK 4,630 billion and was almost 70% higher than in 2012. In the long run, the share of clients' assets managed by banking investment firms did not change and stood at around 80%. The volume of managed funds grew by 6.9% and reached CZK 846 billion at the end of 2017.

[52] Measured by number of contracts, that is, one person may be a client of more than one investment firm.

Table 6.7: Selected indicators of investment firms[53]

As at 31 Dec	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Number of clients (according to contracts, in thousands)	875.9	909.7	1,007.8	1,195.9	1,255.2	1,342.0	86.8	6.9
Banking invest. firms	707.9	705.6	757.7	906.1	920.9	986.1	65.2	7.1
Non-banking invest. firms	167.4	203.5	249.3	288.8	333.4	354.8	21.4	6.4
Management companies	0.7	0.7	0.8	1.0	0.9	1.1	0.2	26.2
Value of clients' assets (CZK bn)	2,725.4	2,987.9	3,331.2	3,798.4	4,195.8	4,630.3	434.5	10.4
Banking invest. firms	2,103.2	2,344.9	2,622.6	3,047.2	3,334.1	3,725.9	391.8	11.8
Non-banking invest. firms	416.3	417.6	458.6	492.4	336.4	345.1	8.6	2.6
Management companies	205.9	225.3	250.0	258.8	525.3	559.4	34.1	6.5
Value of managed funds (CZK bn)	604.8	616.6	676.8	699.3	791.7	846.0	54.3	6.9
Banking invest. firms	61.5	57.4	68.7	65.9	70.3	74.9	4.6	6.5
Non-banking invest. firms	336.1	332.8	362.6	381.9	205.9	211.5	5.6	2.7
Management companies	207.1	226.3	245.5	251.5	515.5	559.6	44.1	8.6

Source: CNB, MoF calculations

In terms of the institutional definition of the investment firms, there were no significant changes in 2017. Banking investment firms managed approximately 73% of the sector according to the number of clients' contracts, approximately 80% in terms of the clients' assets, but only about 9% of the managed funds. Non-banking investment firms managed approximately 26% of the sector according to the number of contracts, approximately 8% according to the volume of clients' assets and 25% according to the volume of managed funds. The last category is management companies, which accounted for about 0.1% of the sector according to the number of contracts, but managed 12% of the clients' assets and 66% of the managed funds in the entire sector. Over the whole monitored period, the growth of managed funds was mainly due to management companies, whose volume of funds increased by 170% (about CZK 352.4 billion) and, to a lesser extent, to banking investment firms, which saw an increase of 22% in the same period (CZK 13.4 billion). By contrast, from 2012 to 2017, funds managed by non-banking investment firms declined by 37% (CZK 124.6 billion).

Within the structure of managed funds by type of asset (Table 6.8), debt securities accounted for the most significant part (approximately 77%). They were followed by collective investment securities, which accounted for about 16%. Over the entire period, the volume of managed bonds increased by CZK 167.3 billion (35%), the volume of collective investment securities increased by CZK 73.4 billion (112%) and the volume of stocks increased by CZK 6.9 billion (32%). Over the entire period, managed funds fell by CZK 1.2 billion (approximately 4%), as well as derivatives and other instruments by CZK 5.2 billion (82%). However, the structure of assets of managed funds remained largely unchanged over the monitored period.

Table 6.8: Structure of managed assets

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Bonds	482.5	486.5	551.0	553.3	629.1	649.8	20.6	3.3
Stocks	21.7	16.7	19.6	21.5	21.7	28.6	6.9	31.8
Collective investment securities	65.6	80.3	91.9	104.5	120.9	139.0	18.1	14.9
Money market instruments	28.7	29.6	17.7	21.2	25.3	27.4	2.1	8.3
Derivatives and other	6.4	3.5	-3.4	-1.3	-5.5	1.1	6.6	-120.8
Total	604.8	616.6	676.8	699.3	791.7	846.0	54.3	6.9

Source: CNB, MoF calculations

[53] Managed funds represent entrusted funds by the client to investment firm for the purpose of providing an investment service for the management of the client's property on a discretionary basis under a contractual arrangement. Client's assets are all assets that investment firm has in its power to provide any investment service.

The volume of trades saw growth for the second consecutive year. The volume of trades increased by 144% to the highest volume to date, CZK 195.7 trillion (Table 6.9). In terms of securities traders segments, most trades were made by banking investment firms (approximately 80%), non-banking investment firms (approximately 17%) and management companies (approximately 3%). Banking investment firms also saw the highest year-on-year growth. In terms of the types of trades, approximately 69% of the trades were concluded on the investment firms' own account and about 31% for clients.

Table 6.9: Volume of securities trades

Per year (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Banking investment firms	48,397	49,779	59,539	46,460	54,143	156,965	102,821	189.9
for clients	7,721	7,579	6,079	5,566	5,910	23,569	17,659	298.8
on own account	40,676	42,199	53,460	40,894	48,234	133,396	85,162	176.6
Non-banking investment firms	1,807	23,052	33,607	12,725	25,161	33,520	8,359	33.2
for clients	1,469	22,745	33,250	12,071	23,945	32,655	8,709	36.4
on own account	338	307	357	654	1,216	865	-350	-28.8
Management companies	157	85	77	63	813	5,167	4,354	535.3
for clients	157	85	77	63	813	5,166	4,353	535.3
on own account	0	0	0	0	0	1	1	-
Total volume	50,361	72,915	93,223	59,247	80,118	195,651	115,534	144.2
for clients	9,346	30,409	39,406	17,699	30,668	61,389	30,721	100.2
on own account	41,014	42,506	53,817	41,548	49,449	134,262	84,813	171.5

Source: CNB, MoF calculations

The enormous increase in the volume of trades in the entire sector was due to the rise in bond trades (by 115 trillion), which can be attributed, among other things, to speculations about the termination of the unilateral exchange rate commitment that the CNB ended in April 2017 (see Chapter 1.2). The volume of trades in collective investment securities, derivatives and money market instruments also increased slightly. In 2017, on the other hand, the volume of stock trades decreased compared with 2016 (by 8.8%). In the long run, more than 90% of trades in the sector were bond trades. Other instruments played a significantly smaller role in business activity.

Table 6.10: Structure of managed assets

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Bonds	45,875	68,824	88,701	53,689	75,808	190,975	115,168	151.9
Stocks	3,490	3,356	3,573	3,833	3,262	2,975	-288	-8.8
Collective investment securities	981	714	940	1,715	1,041	1,653	611	58.7
Money market instruments	12	20	9	10	6	6	0	4.7
Derivatives and other	2	1	0	0	0	43	42	10,370.6
Total	50,361	72,915	93,223	59,247	80,118	195,651	115,534	144.2

Source: CNB, MoF calculations

Asset management

The volume of assets entrusted for management to the members of the Czech Capital Market Association (AKAT) increased by 7.0 % to a total of CZK 1.38 trillion in 2017. The three largest asset managers, which are also members of AKAT, managed more than 55% of total assets.

Table 6.11: Value of managed assets of AKAT members

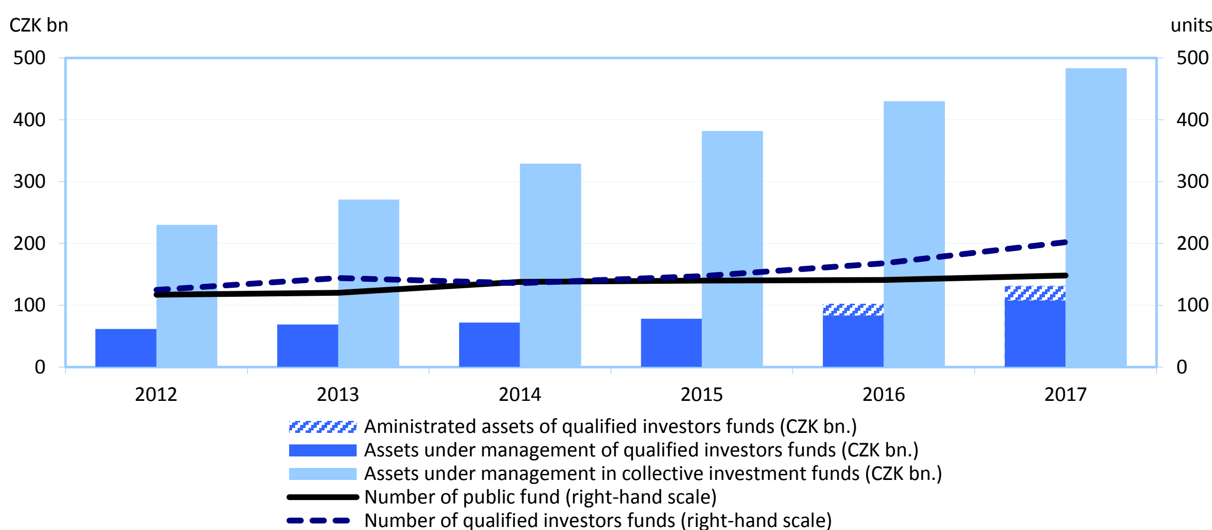
As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Total	885.3	995.7	1,133.2	1,159.7	1,288.4	1,378.1	89.8	7.0

Source: AKAT, MoF calculations

6.4 Investment Funds

Investment funds can be divided into collective investment funds and qualified investors funds. Collective investment funds collect funds from the public and issues investment fund stocks or unit certificates, carrying out joint investment or asset management. By contrast, qualified investors funds collect funds from professional clients for the purpose of trades or investment services relating to the securities offered. Within the whole monitored period, there was a growth of managed assets in both types of funds (Graph 6.3).

Graph 6.3: Structure of investment funds[54]



Source: AKAT, CNB

Collective investments funds

The volume of funds in collective investment funds increased by 12.4% in 2017 (by CZK 53.4 billion). By the end of 2017, CZK 483.5 billion was invested in these funds, of which CZK 280.2 billion in domestic funds and CZK 203.3 billion in foreign funds. Domestic funds have seen higher growth than foreign funds since 2014, driven not only by the growth in valuation of the assets concerned, but also by the increasing popularity of domestic funds (Table 6.12). Cumulative growth over the whole monitored period from 2012 stood at 153.8% for domestic funds, while it was 69.6% for foreign funds.

In terms of types of mutual funds, differences between domestic and foreign funds continued to exist in 2017. For domestic funds, in 2017 the largest share of funds was represented by mixed funds (approximately 42%), bond funds (about 25%) and equity funds (about 16%). The largest absolute growth was seen in mixed and equity funds, while bond funds grew only marginally. In the case of foreign funds, mixed funds (approximately 35%) were also dominant in terms of the volume of funds. However, the order of other funds by size varied. Mixed funds were followed by equity funds (about 27%), then by bond funds (about 23%) and structured funds (about 13%). Absolute growth in foreign mixed and equity funds was lower than in the case of their domestic counterparts, while the volume of funds in foreign bond and structured funds even declined year-on-year. The strong influence of mixed funds corresponds to a certain degree of flexibility, with a wide range of investment strategies from conservative (bond-oriented) to dynamic (stock-oriented) investments. In low interest rate environment, this type of funds saw a significant increase.

[54] Since 2014 there has been a change in the methodology of asset reporting in domestic mutual funds, which report data for investments in domestic funds in the Czech Republic, i.e. the administrator's perspective was replaced by distribution perspective. Data represent values as at year end.

Table 6.12: Assets in individual types of unit trusts by domicile

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Domestic	110.4	130.6	167.0	201.8	234.6	280.2	45.6	19.4
Bond	51.3	53.6	64.2	64.8	70.7	71.1	0.5	0.6
Equity	16.7	18.0	22.3	27.1	33.6	44.3	10.7	31.7
Structured[55]	1.5	3.8	0.1	0.3	0.3	0.2	-0.1	-35.4
Mixed[56]	19.2	22.6	36.8	80.1	92.4	117.6	25.2	27.2
Funds of funds	16.6	27.4	38.3	17.7	20.0	24.1	4.1	20.6
Money market	3.0	1.8	1.3	0.6	0.5	0.4	-0.1	-17.8
Real estate	2.1	3.4	4.0	11.3	17.0	22.4	5.4	31.5
Foreign	119.9	140.5	161.9	180.2	195.5	203.3	7.8	4.0
Bond	30.9	34.0	44.5	47.0	53.4	47.6	-5.7	-10.7
Equity	26.7	34.1	35.1	42.3	47.7	55.0	7.3	15.4
Structured	37.3	35.6	31.9	28.0	27.2	26.7	-0.5	-2.0
Mixed	12.0	25.2	42.0	57.8	63.4	71.0	7.6	12.1
Funds of funds	0.3	0.5	0.5	0.2	0.2	0.3	0.1	28.8
Money market	12.2	10.2	6.6	3.8	2.6	2.2	-0.4	-15.5
Real estate	0.4	0.9	1.2	1.2	1.1	0.5	-0.6	-55.4
Total	230.3	271.1	328.9	382.0	430.1	483.5	53.4	12.4

Source: AKAT, MoF calculations

Qualified investors funds

The funds for qualified investors saw a year-on-year increase in the number of managed or administered funds by CZK 24.0 billion to CZK 107.6 billion (Graph 6.3). If we also include the administration of funds, i.e. funds administered by an AKAT member, but not managed by another AKAT member, the volume of funds in qualified investors funds increased by CZK 29.0 billion year-on-year to CZK 131.7 billion. In terms of the share in the total volume of assets[57] in investment funds (i.e. both qualified investors funds and collective investment funds), the share of qualified investors funds was around 18.2% of the total assets managed by investment funds.

[55] Structured funds represent structured, guaranteed and secured funds. Structured funds offer investors an investment based on a particular algorithm. Guaranteed funds provide a formal and legally binding guarantee of income or capital. Secured funds provide some protection against full market volatility.

[56] The classification of a fund among mixed funds is not subject to a fixed limit for the share of individual investment instruments, as is the case with share or bond funds.

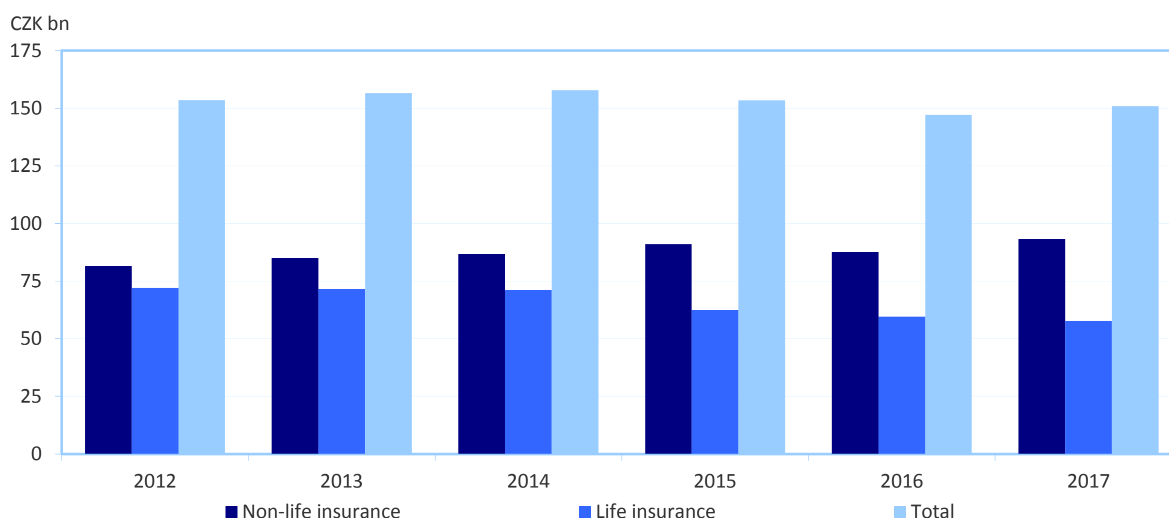
[57] Excluding funds administered by qualified investor funds.

7 INSURANCE

Due to a certain delay between economic developments and their impact on the insurance market, the insurance sector managed to reverse the two-year downward trend in gross premium in 2017, which grew slightly by 2.5% and reached almost CZK 151 billion. Only non-life insurance contributed to the growth, while the life insurance portfolio continued the downward trend (Graph 7.1). Because of the very good condition of the Czech economy, the growth rate of gross premium written did not suffice to offset the GDP growth rate, and therefore the ratio between gross premium written and nominal GDP (3%) further decreased.

The stability of the insurance sector in the Czech Republic was also evidenced by the aggregated results of the joint stress tests of the CNB and selected insurance companies[58] conducted in Q2 2017, which confirmed sufficient resilience to potential adverse shocks even under Solvency II, the new regulatory concept. The testing showed that the sector as a whole had sufficient capital adequacy, and was thus able to absorb relatively significant changes in risk factors[59]. The sector's solvency ratio, even after applying the shocks, was relatively high above the 100% regulatory minimum. In the case of an extended stress scenario, which also tested the impact of any floods, the overall solvency ratio for the insurance companies was 152%.

Graph 7.1: Volume of gross premium written



Source: CNB–ARAD

During the monitored period, insurance companies dealt with more natural damage related to property damage caused mainly by storms, where hurricane Herwart[60] most contributed to the total amount of damage caused by natural elements. According to the data of the Czech Insurance Association (CIA), the number of insured events caused by storm was 68.2 thousand, up more than seven times year-on-year. The volume of wind damage was CZK 1.8 billion. The preliminary figure for the total value of damage caused by natural elements to property was CZK 2.8 billion, which was 65% more than in 2016. In 2017, the damage caused by natural elements was highest in damage to property (27.5%), while in 2016 fire damage was highest (29.2%). However, compared to large natural disasters abroad, the volume of “natural damage” in the Czech Republic was relatively low.[61]

Similarly as on the European scale, the imbalance between obligations under fixed-interest contracts in life insurance and declining investment returns were among the sources of tension also for Czech insurance

[58] The testing involved 19 insurance companies representing more than 99% of the insurance market in terms of gross premium written.

[59] The stress scenario assumes a strong and long-lasting decline in economic activity in the Czech Republic, which was accompanied by deflation. The scenario assumed a 41% fall in stock prices, a 20.5% fall in real estate prices, and a 10% drop in premium written in the motor insurance industry, while maintaining the same level of costs as in 2016.

[60] The hurricane hit the Czech Republic at the end of October 2017 and in terms of the consequences it is second only to hurricane Kyrill of 2007.

[61] The insurance payments of the major reinsurance company Swiss Re as a result of natural disasters amounted to almost CZK 110 billion. The year 2017 was considered as one of the most costly for insurance and reinsurance companies (e.g. hurricanes Harvey, Irma and Maria, cyclone Debbie, earthquake in Mexico).

companies. In addition, the problematic situation in the Czech Republic's life insurance was highlighted by the relatively high commissions that were required for the conclusion of especially capitalizing type of insurance.

As stated by many insurance market representatives and the CIA, the insurance sector has been relatively quick to implement innovations and modern procedures based on the application of the latest information and communication technologies, which further streamline the activity of insurance companies. Technological innovations were also introduced with the help of FinTech or InsurTech start-up companies. At the same time, a number of large-scale regulatory processes have been successfully implemented in the insurance sector, largely resulting from the transposition of European legislation (see Chapter 9).

The main challenges for the insurance market in the following period include the ability to cope quickly and fluently with the liquidation of sudden damage caused by natural elements and, in response to client needs, to cover the existing and new types of risks (such as cyber-risks) with maximum flexibility.

7.1 Development of Life and Non-Life Insurance

The non-life segment grew by 6.4% and reached the volume of premium written of CZK 93.3 billion. Also, the total number of concluded insurance contracts increased (by 5.4% to approx. 22 million) and the number of new contracts also increased (by 8.9% to about 11.4 million). The acceleration of this segment was mainly due to motor vehicle accident insurance, with an increase of 8.8% and vehicle liability insurance with an increase of 4%. The number of insured vehicles grew in both the household and business sectors. Motor vehicle insurance accounted for about 43% of the total non-life insurance, of which motor third party liability insurance accounted for 24%. Insurance against fire and other property damage accounted for 26% of the total gross premium written within non-life insurance.

Table 7.1: Main indicators for Insurance sector

As at 31 Dec	2012	2013	2014	2015	2016[62]	2017	Year-on-year change	
							Abs.	(%)
Number of policies (in thousands)	26,880	27,321	28,157	27,748	26,861	27,856	995	3.7
of which: non-life insurance	18,278	19,252	20,417	20,355	20,865	21,991	1,126	5.4
life insurance	8,602	8,061	7,740	7,393	5,996	5,865	-131	-2.2
Number of newly concluded policies (in thousands)	11,575	11,874	11,955	10,861	11,126	12,020	894	7.9
of which: non-life insurance	10,035	10,738	10,889	9,920	10,454	11,386	932	8.9
life insurance	1,540	1,137	1,066	941	683	634	-49	-7.2
Total gross premium written (CZK bn)	153.6	156.5	157.8	153.4	147.2	150.9	3.7	2.5
of which: non-life insurance	81.6	85.0	86.6	91.0	87.6	93.3	5.7	6.4
life insurance	72.1	71.6	71.2	62.4	59.6	57.6	-2.0	-3.4
Total gross claim paid (CZK bn)	88.2	100.6	105.0	99.7	95.7	96.8	1.1	1.2
of which: non-life insurance	41.8	49.2	46.7	48.5	50.6	54.2	3.6	7.0
life insurance	46.4	51.4	58.3	51.2	45.1	42.6	-2.5	-5.4
Total insurance penetration (%)	4.0	4.0	3.7	3.4	3.2	3.0	-0.2	-

Source: CNB–ARAD

In terms of non-life insurance, according to CIA the insurance contracted by households accounted for almost 80% (a year-on-year increase in gross premium written of 6.1%), although insurance contracts to cover potential risks was historically never a priority item in family budgets for most people. Insurance concluded by entrepreneurs accounted for about 20% of non-life insurance and showed a gross premium written increase of 5.4%. The favourable economic situation allowed entrepreneurs to more rapidly renew and expand their fleets and increase investments and cover them by insurance, incl. insurance of consequential damage incurred by the interruption of operation or all-risk insurance, which guarantees the coverage of all conventional insurance risks.

[62] Due to the different methodology (reporting by type of insurance in accordance with the Solvency II requirement), the 2016 data are not entirely consistent with the previous time series.

Life insurance failed to overcome the unfavourable developments from previous years, when the gross premium written reached only CZK 57.6 billion and decreased by 3.4% year-on-year. The number of new contracts also declined (by 7.2%), albeit at a slower rate than in 2016. Higher decline was seen in single premium, while current premium saw very gradual growth. Current premium benefited from continued increasing interest in mortgages, as the disbursement sometimes requires the conclusion of a life insurance policy. Usually, this policy covers the risk of death, disability, sickness or loss of employment. Insurance thus increases the creditworthiness of a mortgage applicant.

The downward trend and outflow of life insurance policyholders (7.2% decrease year-on-year in new insurance contracts) in reserve-based insurance could have also been due to the competitive pressure of savings and investment products from other financial market sectors; for example, investment products with stock component saw much better yields during economic growth. Selected indicators of life and non-life insurance are summarized in Table 7.1.

7.2 Economic Results of Insurance Companies

The insurance sector reported a pre-tax profit of CZK 10.6 billion in 2017. The moderate increase in total claims was reflected in the insurance technical result, which, together with limited options for the appreciation of financial reserves through conservative instruments on the financial market, contributed to a year-on-year decrease in profit of 19.9% (Table 4.6). This economic result does not deviate significantly from the average level for the whole monitored period (CZK 11.8 billion).

Total insurance company assets increased by 4.2% year-on-year to CZK 512.3 billion, of which investments in which the investment risk is borne by insurers (69.3%) accounted for a significant part. Other significant assets were life insurance investments with the policyholder bearing the investment risk (18.2%), other assets (4.3%) and receivables from debtors (3.9%). The 4 main asset items saw year-on-year growth of 4–9%, excluding other assets, which grew by 23%, mainly due to higher cash on accounts of financial institutions and cash on hand.

On the liabilities side of the balance sheet, the technical reserves (52%) were the decisive item, which fell by 1.5% year-on-year to CZK 266.3 billion.[63] This does not include life insurance technical provisions with policyholders bearing the investment risk, which rose by 5.7% to CZK 93.2 billion (18.2% of liabilities).

In 2017, the structure of domestic insurance companies' investments remained traditionally conservative. Debt securities accounted for the largest share (67%), followed by investments in investment funds (14%), cash and deposits (7%), and stocks (6.5%). Other investment instruments accounted for the remaining minority share (5.5%) – e.g. structured bonds, real estate, loans and mortgages, asset-backed securities, etc.

The overall profit of insurance companies was also affected by the low profitability in motor third party liability insurance. Here, despite the deepening segmentation of drivers, insurance companies still failed to generate stable and long-term profits due to the ever-increasing demands for compensation and the persistent stagnation of insurance rates.

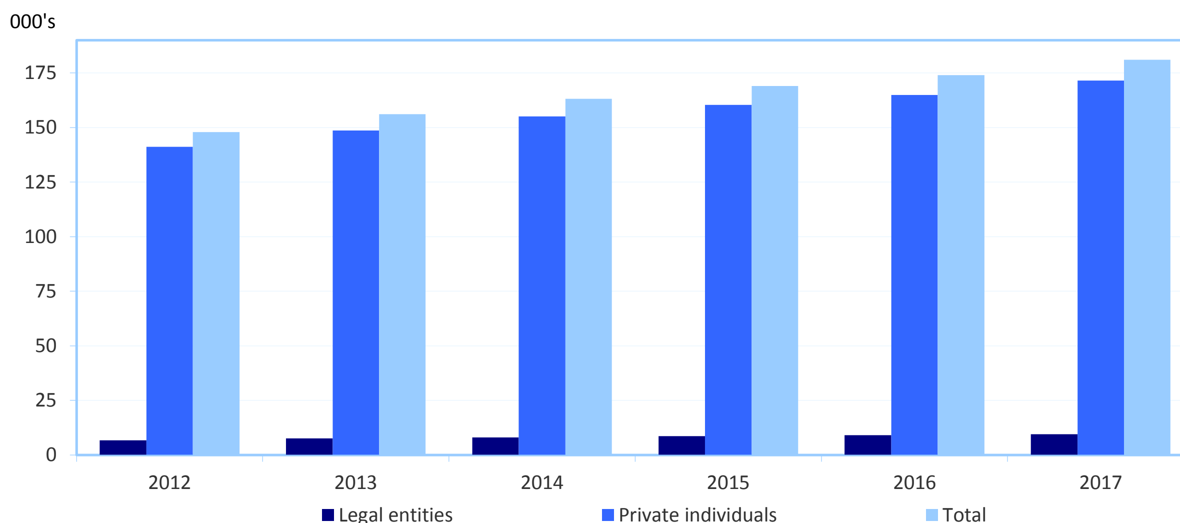
The financial results of insurance companies are also affected by their success in identifying insurance fraud. According to CIA, insurance companies investigated over 18 thousand of suspicious insured events, in which they revealed insurance fraud worth a total of CZK 1.2 billion. Compared with 2016, which was dominated by personal insurance frauds, 2017 was dominated by vehicle insurance frauds. The probability of detecting insurance fraud has increased again as a result of more intense fight against this type of crime. Insurance companies investigated 13% more insurance frauds and the financial volume of proved insurance fraud increased by 1%. The average amount of proven insurance fraud increased from CZK 146 thousand to CZK 163 thousand, an increase of 11%.

[63] This is the net amount of the technical provisions, i.e. after deducting the reinsurers' share of the technical provisions.

7.3 Insurance Intermediation

The development in the number of insurance intermediaries continued to grow, similarly to previous years. At the end of 2017 there were about 181 thousand intermediaries, including independent loss adjusters holding a license to carry out intermediary activities. As is immediately obvious from Graph 7.2, the majority are individuals (95%).

Graph 7.2: Number of insurance intermediaries



Source: CNB

Also, there were no significant changes in the structure of individual categories of intermediaries. Subordinated insurance intermediaries and exclusive insurance agents were the largest two categories and together represented over 88% of the total number of intermediaries. These categories involved mostly natural persons. On the other hand, the category of insurance broker and insurance agent had a higher representation of legal persons. Also, there were more than 6,000 intermediaries from EU countries on the market. At the same time, however, more than 22 thousand intermediaries had their licence terminated, mostly at their request and partly also as a result of control and supervision activities of the CNB, which excludes persons from the register, especially for long-term inactivity. The evolution of the number of insurance intermediaries is shown in Table 4.1.

The new law on the distribution of insurance and reinsurance, which is going through the final phase of the legislative process in early 2018, should also contribute to the exclusion of inactive intermediaries from the register. The aim of the proposed law is to achieve a unified approach to the regulation of distribution on the financial market, together with better intelligibility and comparability of information on insurance products and increased requirements for professionalism of persons in the insurance sector. If a current insurance intermediary wants to continue his intermediation business, such an intermediary will have to re-register. Exemption from the re-registration obligation will be granted to current insurance brokers and insurance agents. The business licence to intermediate insurance will now be granted for a fixed term (1 year), and its possible extension by the CNB will be subject to an administrative fee.

8 PENSION SYSTEM

8.1 Pension Management Companies

Pension management companies have managed the participants' assets that are kept in the individual pension accounts that make up the participating and transformed funds. They were created as new entities, largely by the transformation of the original pension funds in connection with the pension system reform of 2013.

Within Pillar 3[64], the pension management companies are legally obliged to offer one conservative participating fund with the investment limits defined in the law. In addition, however, they can, within the broader statutory limits, offer a range of other participating funds with different portfolio structures. Furthermore, pension management companies manage funds in "transformed funds". These are the funds to which the savings of the participants in the original supplementary pension insurance scheme were automatically transferred. At the same time, the conditions of their supplementary pension insurance contracts were retained (namely the no-loss guarantee, the ability to receive an early pension, and the conditions that make it possible to terminate the contract and receive payments). New entrants can no longer enter the transformed funds.

As shown in Table 8.1, as in 2 previous years, there were 8 pension management companies operating in the pension system at the end of 2017, of which all managed funds in participating as well as transformed Pillar 3 funds. In terms of number of entities, the pension management companies sector seems to be fully stabilized. After the 2013 reform, there were 10 pension management companies in the market, of which one decided to terminate its activities, and two companies merged.

Table 8.1: Number of funds of pension management companies

Pension management company	Pillar 3	
	Transformed funds	Participating funds
Allianz penzijní společnost, a.s.	1	3
AXA penzijní společnost a.s.	1	3
Conseq penzijní společnost, a.s.	1	3
Česká spořitelna - penzijní společnost, a.s.	1	4
ČSOB Penzijní společnost, a.s.	1	4
KB Penzijní společnost, a.s.	1	4
NN Penzijní společnost, a.s.	1	3
Penzijní společnost České pojišťovny, a.s.	1	4
Total	8	28

Source: APS CR

As at 31 December 2017, pension management companies managed a total of 36 funds, i.e. 19 funds less than at the end of 2016. A significant change in the number of funds occurred due to the cancellation of the so-called Pillar 2 (voluntary retirement savings scheme) and the associated termination of 20 pension funds managed by 5 pension management companies after all funds have been disbursed. In 2017, a new participating fund was established, which was founded by Česká spořitelna – penzijní společnost, a.s. This new fund should invest mainly in bonds of socially responsible companies, green bonds, and also in stocks.

Pre-tax profit from ordinary activities in the pension management companies sector amounted to CZK 1.6 billion in 2017, which represents a year-on-year increase of 14.5%. As can be seen from Table 8.2, during the existence of pension management companies, this was a record amount of profit, which was due in particular to the increase in the proceeds from fund management fees of 9.1%. By contrast, the profit was negatively affected by a decrease in fund asset appreciation fees of 1.8%. In this respect, pension management companies benefited from the change in the statutory upper limits on fees for the management and

[64] Pillar 1 represents a mandatory pay-as-you-go pension system financed by the state. Pillar 2, which was represented by voluntary retirement savings scheme, was started in 2013 and in 2016 was discontinued.

appreciation of assets in transformed and participating funds (except the mandatory conservative fund)[65], which has been in force since 2016.

Regulatory capital of pension management companies increased slightly, and the ratio of the pension management companies' capital to their cumulative capital requirements saw the first year-on-year increase since 2013 by 19.8 pp. This significant increase was mainly due to the reduction in the capital requirements for pension management funds of almost CZK 1 billion (13.1%) due to less risky capital structure of fund assets as a result of increased share of deposits placed with credit institutions (Graphs 8.8 and 8.9 in Chapter 8.2). Therefore, the increased resilience of pension management companies to unfavourable developments on financial markets, especially in connection with the need to cover the loss of transformed funds due to the statutory guarantee of their non-zero appreciation, with a consequent negative impact on the profits of pension management companies, which could lead to a reduction in their regulatory capital, can only have a temporary character.

Table 8.2: Selected indicators in pension management companies sector

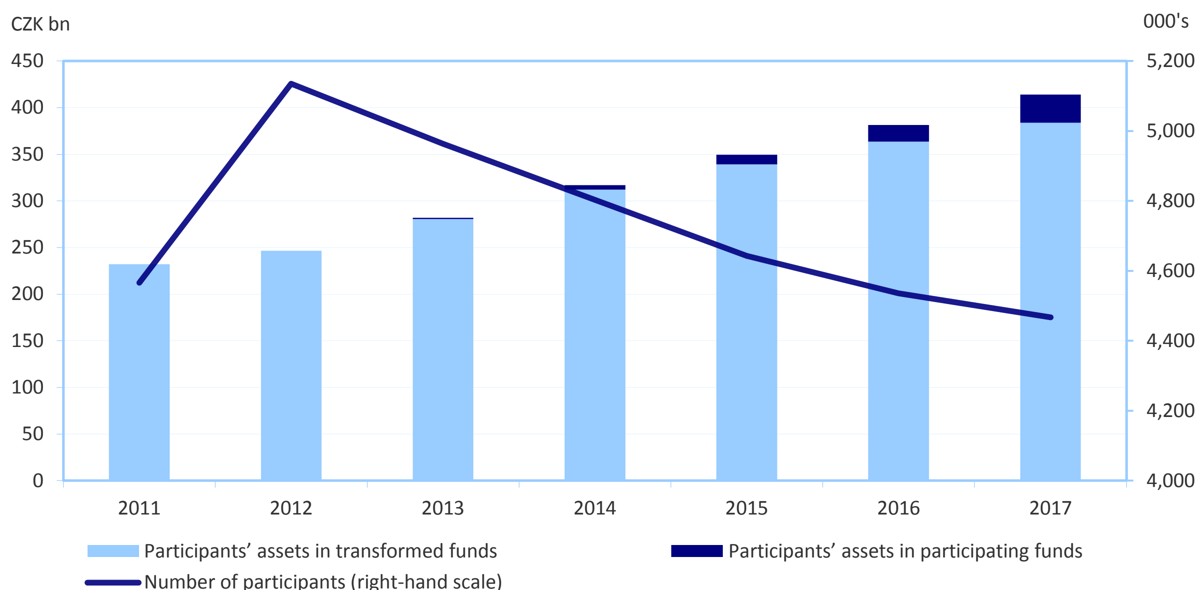
As at 31 Dec	2013	2014	2015	2016	2017	Year-on-year change (%)
Profit (loss) for the accounting period before taxation (CZK bn)	-0.3	0.5	0.8	1.4	1.6	14.5
Equity, total (CZK bn)	9.1	8.3	8.8	8.9	9.0	1.3
Capital ratio (%)	148.5	139.7	132.6	119.9	139.7	-

Source: CNB–ARAD

8.2 Supplementary Pension Insurance and Supplementary Pension Savings

Participants' assets in transformed and participating funds increased by 8.5% in 2017 and reached a total of CZK 413.9 billion (Graph 8.1). Savings totalling CZK 30 billion (an increase of 65.9%), which accounted for 7.2% of all of the Pillar 3 funds, were managed by pension management companies in participating funds at the end of the year. Most of the CZK 383.9 billion remained in the transformed funds, whose year-on-year increase was down to 5.6%.

Graph 8.1: Participants' assets and number of participants in Pillar 3



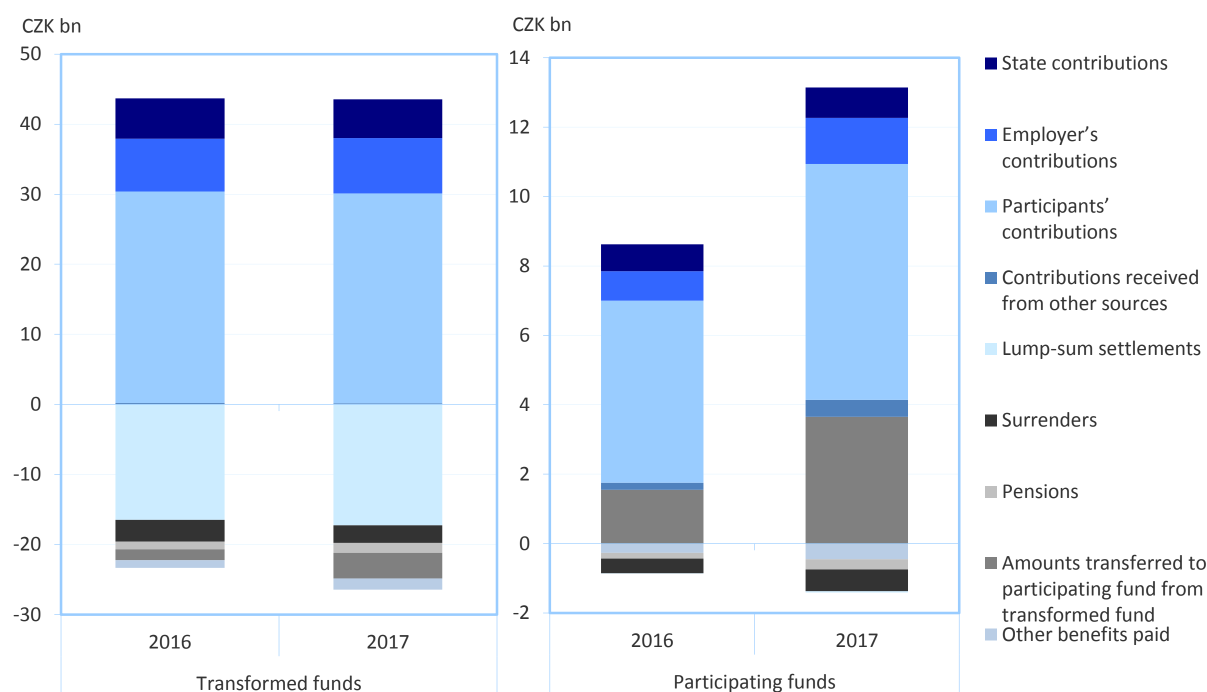
Source: APS CR, MoF

[65] In the case of transformed funds, the maximum remuneration for asset management increased by 0.2 pp to 0.8% of the total amount saved. Conversely, the limit for remuneration of pension management companies for asset valuation decreased by 5 pp to 10% of annual yields. In the case of participating funds except mandatory conservative fund, the maximum remuneration for asset management increased by 0.2 pp to 1% of the total amount saved, and the limit for remuneration for increase in value of assets increased by 5 pp to 15% of annual yields.

At the end of 2017, 4.47 million participants had their savings in the Pillar 3, i.e. almost 69 thousand less than in 2016. 3.71 million participants had their savings in transformed funds and approximately 757.5 thousand person had their savings in participating funds.[66] Thus, the decrease in the total number of participants continued, partly as a result of a large number of new entrants (an increase of 569,000 persons) in connection with the possibility to conclude the contract under the terms of the supplementary pension insurance only until the end of November 2012. Although the number of supplementary pension savings increased again in 2017 by 210 thousand, this increase in the number of people in participating funds continued to be insufficient to cover the loss of clients in the transformed funds, which amounted to nearly 290 thousand. Positive developments, however, involved reduced gap between the increase and decrease in the number of participants compared to 2016.

While transformed funds showed again a decline in the balance between received and disbursed funds because they were closed for new entrants, revenue from participating funds increased by CZK 4.5 billion compared to 2016 and significantly exceeded the amount of disbursements (Graph 8.2). The ever-increasing number of supplementary pension savings participants led to an increase in the total own contributions of participants. The overall increase in revenues compared to 2016 was also due to higher contributions paid by employers, and 135% higher volume of funds transferred from transformed funds.

Graph 8.2: Contributions received and paid in transformed and participating funds



Source: CNB–ARAD

The disbursements from the transformed funds were also in 2017 most commonly made in the form of a lump-sum settlement. On the other hand, surrender payments continued to contribute most to disbursements and the payment of pensions continued to dominate over one-off settlement. However, it is to be expected that the share of the lump-sum compensation in disbursements from participating funds will increase significantly in 2018, because in 2013 there were 41 thousand new entrants in the supplementary pension savings scheme, and there persons will at the given time already be entitled to old-age pension, and it is very likely that most of these participants will want to withdraw all their savings after 5 years. This preference of pension payment over one-off settlement was thus due to only the short-term existence of participating funds and it could also be related to the increasing use of "pre-retirement" pensions[67], especially

[66] The number of participants in the participating funds is based on the data that the MoF receives on a quarterly basis from the individual pension management companies. According to the data of the APS CR, as of 31 December 2017 there were 763,300 participants in the participating funds; according to the CNB's data, there were 762,800.

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

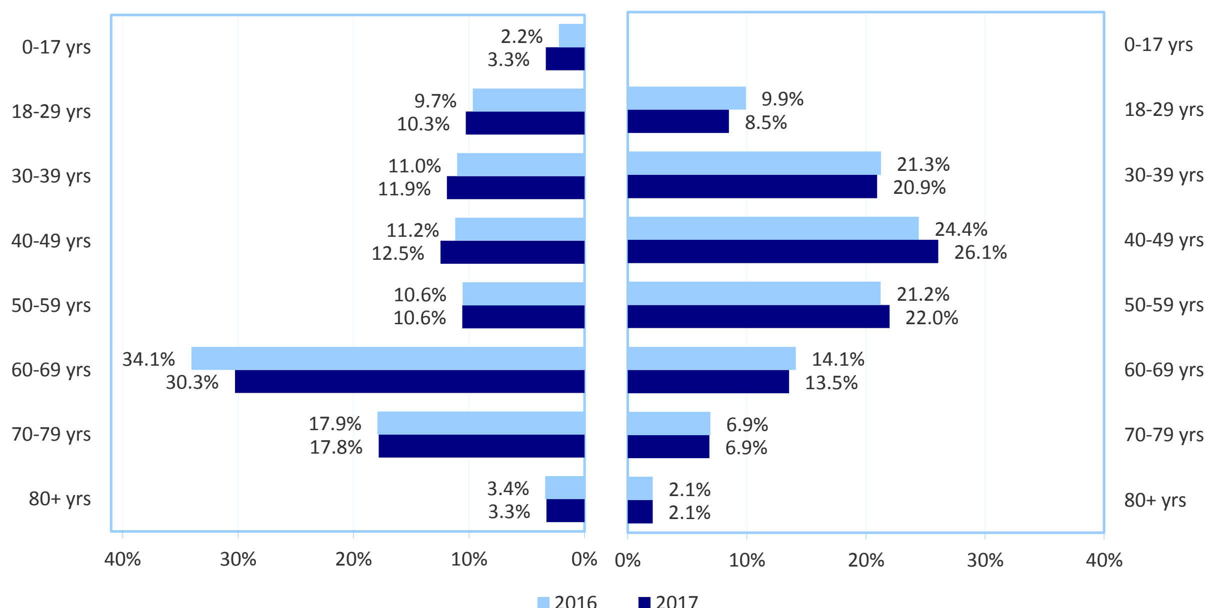
by participants who moved their savings from transformed to participating funds. The pre-retirement pensions were paid to 2,676 persons as at 31 December 2017, an increase in the number of pre-retirement pensions of about 53%. Also, participants could have been motivated to transfer savings from transformed into participating funds and subsequently choose regular pension payments by the possibility to choose (unlike in transformed funds) the payment of the pension for a shorter period, namely for at least 3 years.[68]

The largest age group of the Pillar 3 participants was again 40–49 (23.8%) in 2017. While the number of people aged 40-49 saw slight annual increases over the last 5 years, the number of participants aged 30–39, who were the largest group of participants by age in 2014, steadily declined. In 2017, participants aged 30–39 along with those aged 18–29 again saw most noticeable drop in the number of participants in the Pillar 3. However, this trend is to a certain extent influenced by general developments within the demographic structure of the population. It is positive that in 2017, 29.4 thousand new participants aged 18–29 concluded supplementary pension savings contracts, which is approx. 9.5 thousand participants more than in the previous year. There was again an increase also in relative terms as this participant category accounted for 14 % of all new participants, i.e., almost 3 pp more than in 2016.

2017 was already the second year when minors could also participate in the supplementary pension scheme. Within the category of under-17 participants, 14.2 thousand new contracts were concluded in 2017, up 2.3 thousand from 2016. As in 2016, two-thirds of all new underage participants to supplementary pension savings scheme were children under the age of 9. A significant incentive factor is the possibility to withdraw up to one-third of its savings at the age of 18 (excluding any employer's contributions and after the deduction of state contributions) if the saving period lasted for at least 10 years.

Although the share of young persons in participating funds increased slightly each year, persons over 60 years of age (Graph 8.3) continued to dominate among the participants in supplementary pension savings scheme in 2017 with a share of 51.4%, which, however, was gradually decreasing in previous years. Among new participants who entered participating funds in 2017, people aged over 60 accounted for approximately 45%, while in the previous year they accounted for nearly 53% of all new entrants. However, there has been again an increase in the absolute number of new participants aged 60 and over; for these participants, supplementary pension savings continued to represent an interesting form of investment of their available funds, which they can withdraw, including the state contributions, already after 5 years of savings, because they have reached the retirement age.

Graph 8.3: Age structure of participants in transformed and participating funds

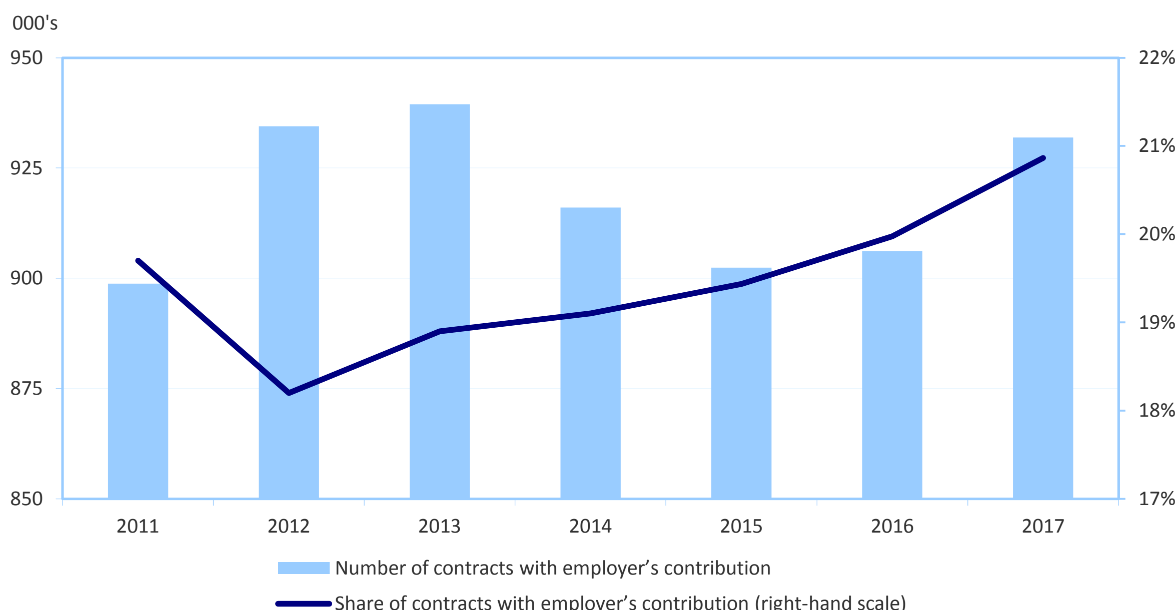


Source: MoF

68 The contracts for supplementary pension insurance, that were made starting in 2000, offer two ways in which the savings can be paid out at the end of the savings period–a lump-sum settlement or lifetime pension payments.

The number of participants receiving supplementary pension insurance or supplementary pension savings from their employer increased significantly in 2017, by 2.8% to approximately 932 thousand. This confirmed the reversal of the 2016 trend, because this employee benefit declined in 2014 and 2015. As can be seen in Graph 8.4, an increase in the absolute number of participants was reflected, compared to previous years, also in a more dynamic increase in the number of participants with employer's contribution of 0.9 pp to 20.9 %. The higher increase in the number of participants with the employer's contribution was accompanied by an increase in the limit of annual tax deductions for companies from the previous CZK 30,000 to CZK 50,000 for each employee, and it was certainly also attributed to the improving economic conditions and the growing shortage of skilled labour. It is to be expected that the effort to find new employees will lead companies to offer more benefits in the form of supplementary pension insurance or supplementary pension savings, and the share of participants with employer's contribution to the total number of participants in the Pillar 3 will continue to get closer to the pre-crisis level (almost 22%).

Graph 8.4: Number of contracts in Pillar 3 with an employer's contribution



Source: MoF

The average monthly participant contribution to supplementary pension insurance in 2017 increased by CZK 18 to CZK 624, i.e. most since 2013 (Table 8.3), which saw a significant sudden increase in the contribution due to changes in the conditions for the payment of the state contribution and the tax relief[69] as part of a major reform of the Pillar 3. As part of the supplementary pension savings, the average monthly contribution increased even by CZK 35 to CZK 776, which represents the highest year-on-year change over the existence of participating funds. It can be assumed that, in addition to the improving economic situation of the participants, this positive development was also due to the increase in the maximum amount that the Pillar 3 participants could deduct from the annual income tax base for 2017.[70] A record increase in the average monthly contribution also occurred with the employer's the contribution, both for transformed funds by CZK 67 to CZK 837 and for participating funds by CZK 39 to CZK 885, with the same factors as in relation to the increase in the total number of participants with an employer's contribution.

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

[70] Participants may deduct up to CZK 24,000 from their annual income tax base if their contribution was at least CZK 3,000. By the end of 2016, it was possible to deduct a maximum of CZK 12,000 if the participant's contribution was CZK 2,000 or more.

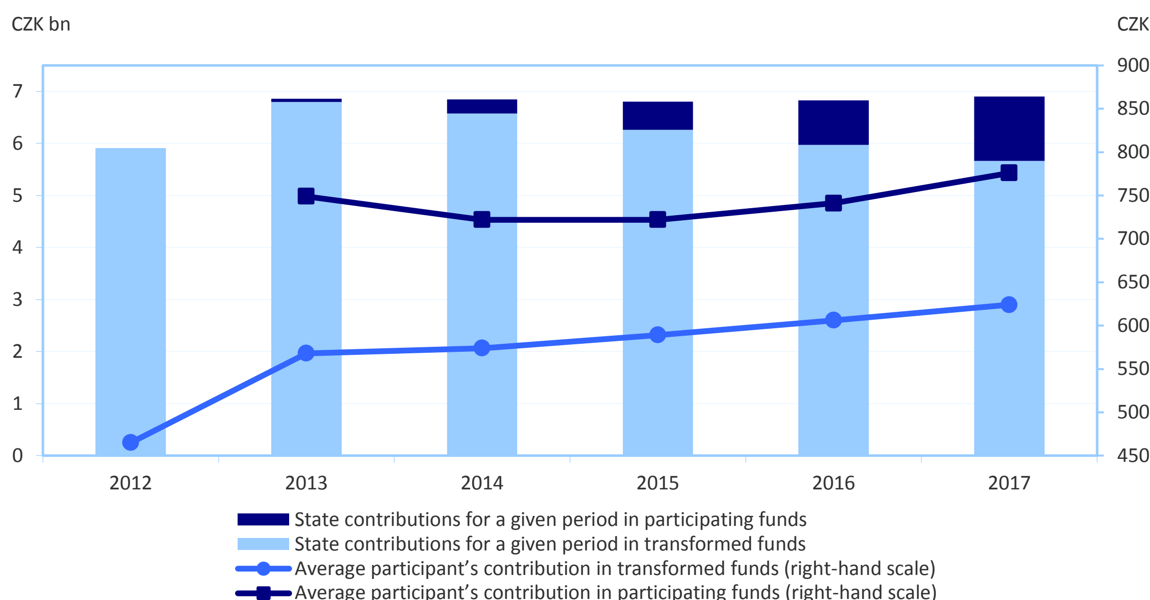
Table 8.3: Average monthly contributions in transformed funds (TF) and participating funds (PF)

	Average CZK/month	2012	2013	2014	2015	2016	2017	Year-on-year change	
								Abs.	(%)
TF	Participant's contribution	465	568	574	589	606	624	18	3.0
	State contribution	108	117	119	122	124	120	-4	-3.2
	Employer's contribution	n/a	705	735	741	770	837	67	8.7
PF	Participant's contribution	-	749	722	722	741	776	35	4.7
	State contribution	-	143	148	152	156	159	3	1.9
	Employer's contribution	-	905	859	857	846	885	39	4.6

Source: APS CR, MoF, MoF calculations

As a result of an increase in the average monthly state contribution per participant and a lower decline in the total number of participants, the total direct state contributions increased in the supplementary pension insurance and supplementary pension savings sector in 2017 by a larger amount year-on-year, namely by CZK 72 million to CZK 6.9 billion (Graph 8.5). Of the total amount of direct state contributions paid for 2017, CZK 1.24 million was used for state contributions in participation funds.

Graph 8.5: State contributions and average monthly participant's contribution in transformed and participating funds

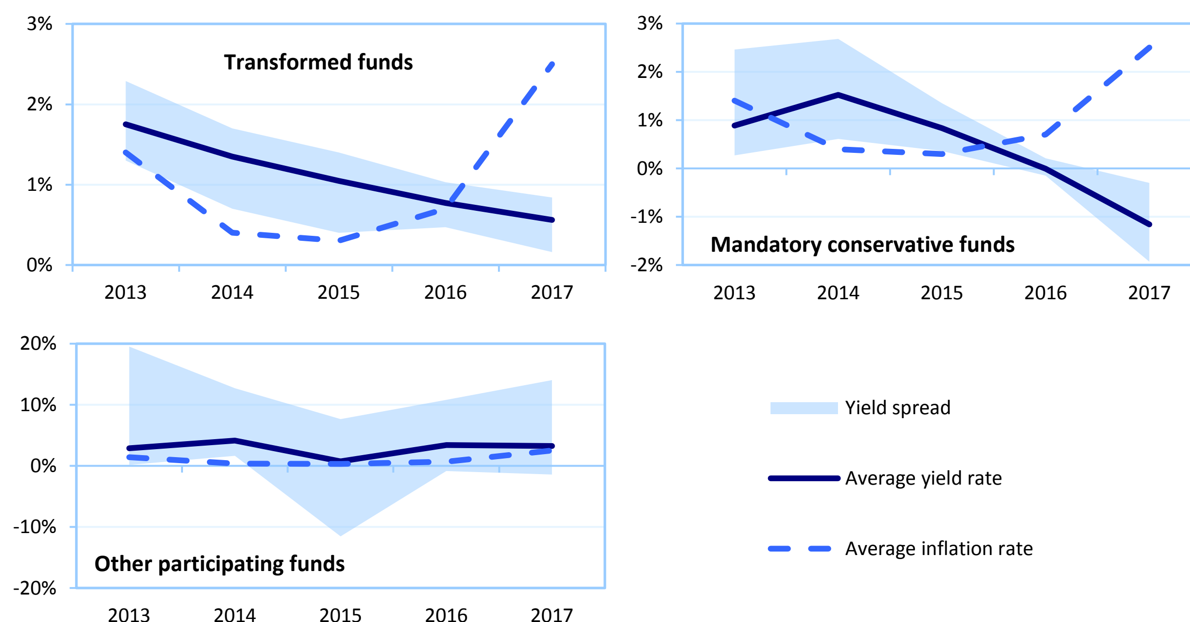


Source: MoF

However, received state contributions only make up a part of increase in value of the funds deposited by participants. Pension funds promise further increase in value through payment of share in their annual profit. The after-tax profit of participating and transformed funds decreased again in 2017, standing at CZK 2.54 billion, i.e. CZK 488 million less than in 2016. There was a decrease in profit for both transformed (-16.2%) and participating funds (-15.2%). Profit was mainly due to transformed funds, which generated almost 93% of the profit, like in 2016.

The appreciation of the participants' assets in the transformed funds in 2017 reached 0.16% to 0.84% p.a. All mandatory conservative participating funds in 2017 due to the fall in bond prices posted a negative appreciation of -1.93 to -0.30% p.a. (Graph 8.6), but they all still were in profit since establishment, although only tenths of a percent in the case of some funds. In the case of other participating funds, their yields depended on their strategy. Revenue in participating funds under dynamic investment strategies with a higher share of stock ranged between 4% and 14% p.a. in 2017. Within balanced strategies, with lower share of stock and higher share of bonds, participating funds showed a lower appreciation of -0.7 to 4.1% p.a., but in most cases they still beat the average rate of inflation in 2017, which was 2.5%.

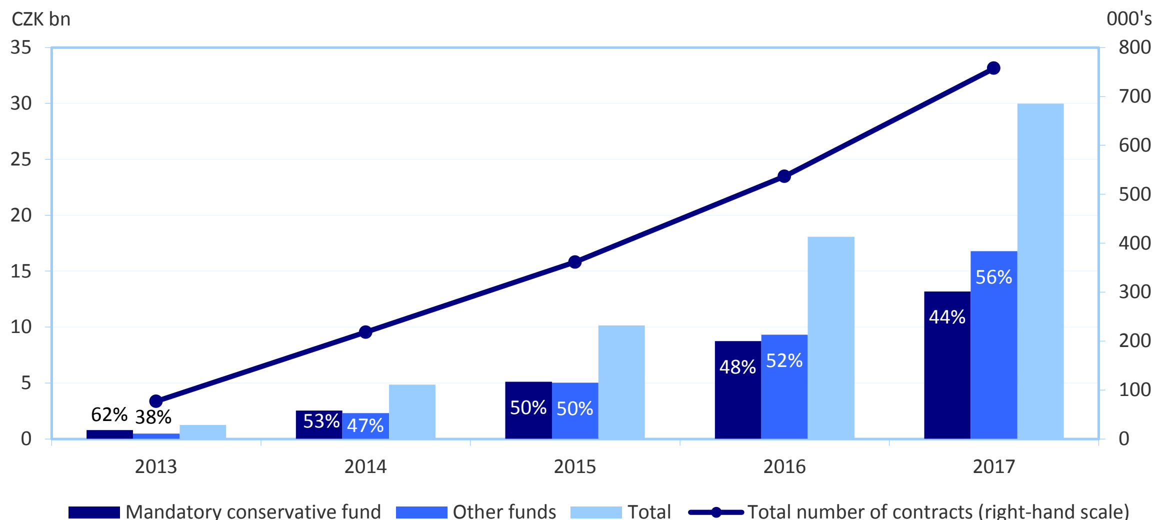
Graph 8.6: Average yield rate in different types of pension funds



Source: APS CR, MoF calculations

As can be seen from Graph 8.7, in terms of allocation of participating funds savings, the share of mandatory conservative funds that invest in least risky assets (government bonds, treasury bills, money market instruments, etc.) decreased again in 2017. Other funds with less conservative investment strategies accounted for around 56% of total supplementary pension savings in 2017, increasing their dominance apparent in the previous year. This was probably related to changes in the participants' age structure, which saw an increase in the share of participants under the age of 49 who could be expected to prefer participating funds with more dynamic investment strategies at the expense of the mandatory conservative fund due to the longer investment horizon before reaching the retirement age.

Graph 8.7: Volume of assets managed in different types of participating funds

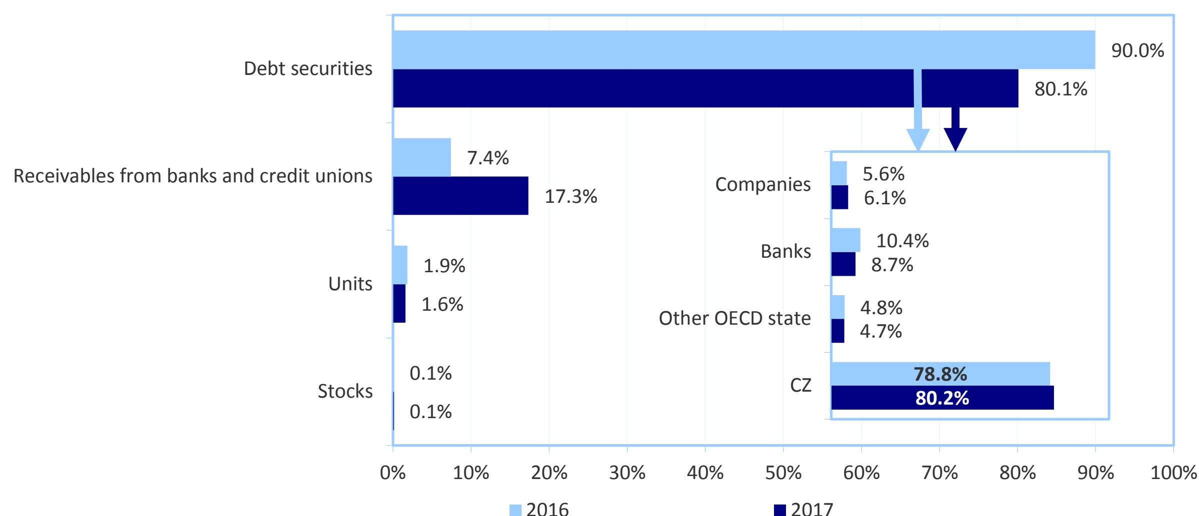


Source: APS CR, MoF calculations

The investment portfolio for the transformed funds (Graph 8.8) has consistently retained a very conservative nature, which, however, follows from the regulatory framework. In 2017 there was a rather significant shift of funds from debt securities to deposits held with credit institutions, which was probably related to the expectation of a sharp increase in interest rates and the expectation to buy higher-yield debt securities. The share of deposits to total assets increased gradually until the end of the Q3 2017, eventually reaching 21.5%. However, during Q4 2017, the share of deposits already fell, and further decline associated with a gradual

increase in bond investments can be expected. In the structure of debt securities, the share of government bonds issued by the Czech Republic increased, while the share of bonds issued by banking institutions declined. Stocks and unit certificates continued to have a negligible share in the portfolio.

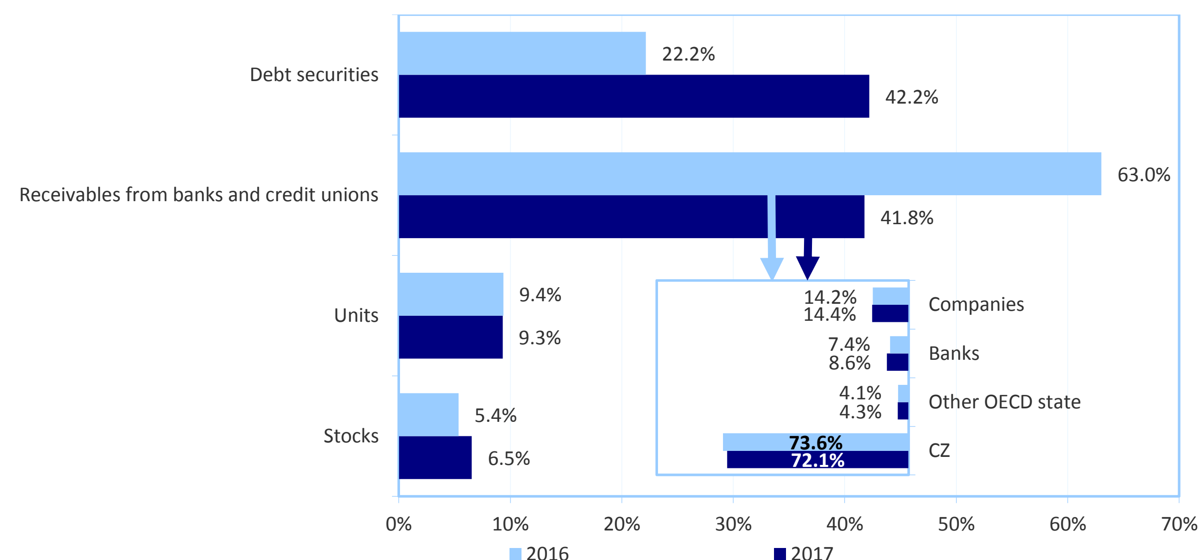
Graph 8.8: Allocation of transformed funds' assets and structure of debt securities according to their issuers



Source: CNB–ARAD, MoF calculations

In 2017, investment portfolios of participating funds saw an even larger increase in the share of deposits with credit institutions at the expense of debt securities than in the case of transformed funds, to the extent that, at the end of 2017, receivables from credit institutions within the asset structure prevailed over other investment instruments (Graph 8.9). As with the transformed funds, the share of deposits reached its maximum in Q3 2017, namely 48.7%. Compared to the transformed funds, participating funds had more funds in unit certificates and stocks, whose share even increased slightly during 2017. This development was related to the continued weakening of the position of the mandatory conservative funds against the other participating funds in terms of the preference of the participants in placing their funds. The preference for a more dynamic investment strategy, when saving in participating funds, was also reflected in a larger share of bonds issued by companies and banks than in the case of transformed funds.

Graph 8.9: Allocation of participating funds' assets and structure of debt securities according to their issuers



Source: CNB–ARAD, MoF calculations

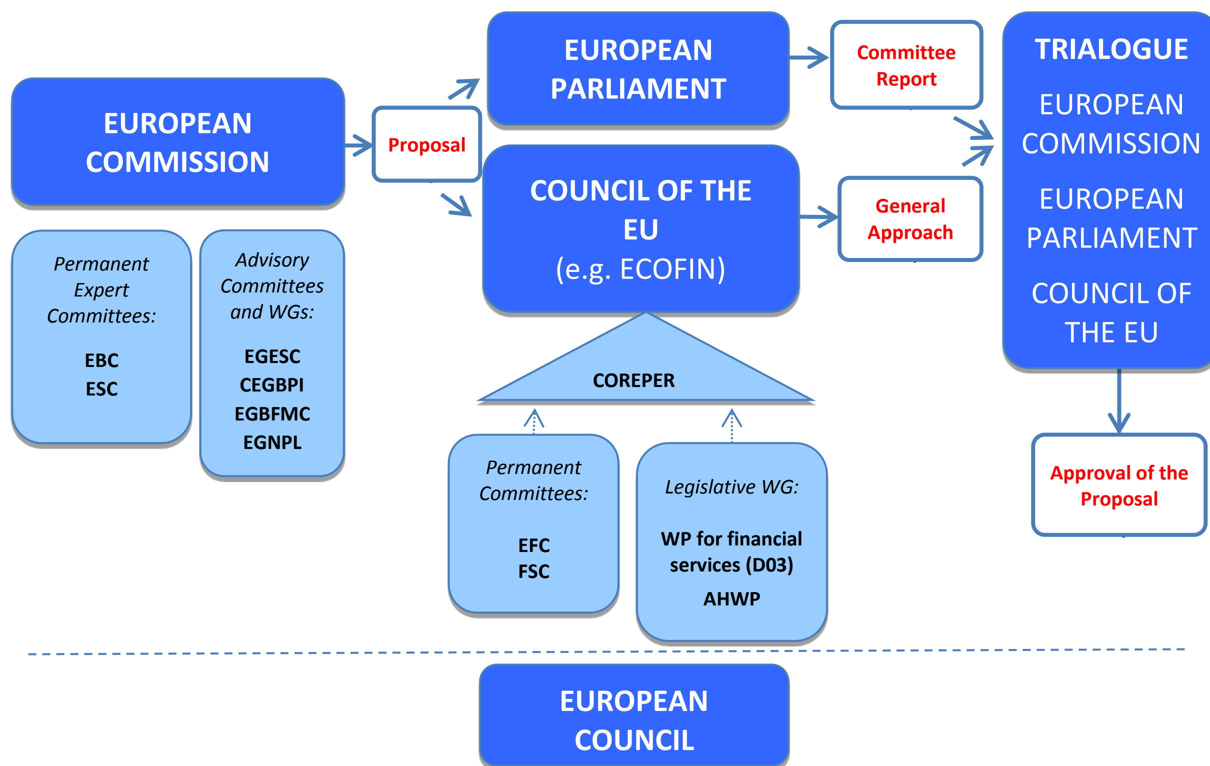
Some of the more detailed information about the supplementary pension insurance and supplementary pension savings sector, which is regularly published on the MoF website (www.mfcr.cz), is included in Tables A2.4 and A2.5 in Appendix 2.

9 FINANCIAL MARKET ACTIVITIES OF THE MOF AND FINANCIAL MARKET LEGISLATION

9.1 Ministry of Finance's Activities on the European Level

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

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



Source: Prepared internally

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

Commission

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

Various working groups and committees function within the Commission as its advisory bodies. Their meetings are held with the participation of representatives from the Member States. As far as financial services are concerned, these are usually representatives from the ministries and, in some situations, also from the central banks. In some cases representatives from the European Central Bank (ECB), European System of Financial Supervision – European Insurance and Occupational Pensions Authority (EIOPA), EBA, and European Securities and Markets Authority (ESMA), European Free Trade Association (EFTA) and European Economic Area (EEA) Member States, and the candidate states to the European Union participate as observers.

Permanent Expert Committees

European Banking Committee (EBC)

The ECB acts as the Commission's advisory body during the preparation of EU implementing acts in the banking sector. This committee did not meet in 2017. In 2017, two silent written procedure votings took place about a draft implementing act concerning the extension of transitional periods in relation to the application of capital requirements for exposures to central counterparties. Since the process of authorization of existing central counterparties to qualified central counterparties has not completed yet, an extension of the transitional period till 15 June 2018 was approved. In May 2018, another vote was held in the form of a silent written procedure to extend these transitional periods until 15 December 2018.

European Securities Committee (ESC)

The ESC is a committee of representatives of Member States that has the right to vote on implementing acts of the Commission within regulatory procedure with scrutiny (does not apply to technical standards, which the Commission only formally approves). On 20 July 2017, the vote on the equivalence of the Commodity Futures Trading Commission (CFTC) was launched in accordance with Article 11 of the Regulation on OTC derivatives, central counterparties and trade repositories (EMIR)[71]. On 30 October 2017, a written procedure (vote) on USA market equivalence was launched pursuant to Article 28(4) of the Regulation on markets in financial instruments (MiFIR)[72]. From 3 November 2017, a written procedure vote on the implementation act on critical benchmarks was held. Also in November a vote on the equivalence of Switzerland and the USA was held pursuant to Article 25(4)(a) of the Directive on market in financial instruments (MiFID II)[73], and a similar vote was held on the equivalence of Hong Kong and Australia. Additional information on USA and Swiss alternative trading systems was circulated during November and December.

[71] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories.

[72] Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

[73] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

Other selected European Commission platforms

Expert Group of the European Securities Committee (EGESC)

EGESC meetings are often held on the same as ESC meetings if it is necessary for the ESC to meet in person (see above). The EGESC group formally met four times in 2017. The February meeting addressed topics such as the Capital Markets Union (CMU), crowdfunding, delegated acts on the benchmark regulation and the obligation to trade shares in trading systems under MiFID II. Further discussions focused on the notification of additional national requirements under MiFID II to protect the assets of clients and small investors, as well as the delegated act on the Securities Financing Transaction Regulation[74] regarding fees charged by ESMA to trade repositories. Autumn meeting (already third) concerned sustainable finance, SME Listing Act, reports from the Commission Expert Group on Corporate Bonds, crowdfunding/P2P, and the increased investment of small investors. The last meeting in 2017 focused on contracts for differences, i.e. derivative contracts, which mandate the seller to pay the buyer the difference between the current value of the asset and its value upon the conclusion of the contract (CFDs), delegated acts to the Money Market Funds Regulation, and delegated acts to the Shareholders' Rights Directive.

Group members were notified in April about the Commission's consultation on conflict-of-law rules for the transfer of securities and receivables. On 19 May 2017, a written procedure was initiated on the draft delegated act on systematic internalisers as well as on the draft list of critical benchmarks. A questionnaire on the assignment of receivables was then circulated in September.

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

The CEGBPI expert group as established in 2013 and to a large extent replaced the European Insurance and Occupational Pensions Committee (EIOPC). Its objective is to provide the Commission with assistance and advice during the preparation of proposals and delegated acts associated with banking, payment services, and the insurance industry. This CEGBPI also functions as a platform for communication and the exchange of opinions between the institutions of the Member States and the Commission.

In its section for payment services and payments, transposition of PSD II[75] by individual Member States was the main contents of meetings in 2017. The section met three times in 2017. During the meetings, discussions were held on individual articles of the Directive and their transpositions into the legal systems of Member States. In addition, the Commission's implementing acts were discussed.

In the insurance industry section in 2017, the group discussed a proposal for a Pan-European Personal Pension Product (PEPP), infrastructure investment, STS securitization, a planned review of the Solvency Capital Requirement, International Capital Standards (ICS) according to the International Association of Insurance Supervisors (IAIS), mandatory insurance under Article 179 of the Solvency II Directive, the impact of IFRS 17, the issue of minimum harmonization for crisis resolution, including cross-border cooperation and harmonization to comply with Solvency II requirements[76], which was accompanied by the presentation of results and recommendations of EIOPA and ESRB on experience and approaches of individual Member States.

The Commission uses the CEGBPI in its banking section, or bank regulation and supervision, for consultation of forthcoming delegated acts based on the directive (CRD IV)[77] and the regulation (CRR)[78] on prudential requirements for credit institutions and investment firms. In 2017, the group met only once on 9 June 2017. The discussion concerned a new prudential approach to securities traders and covered bonds. The following meeting of the group, which took place on 16 March 2018, the Commission informed about its basic idea of the implementation process of the revised Basel standards approved in Basel on 7 December 2017 and about

[74] Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012.

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

[76] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

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

[78] Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/2012.

the forthcoming public consultation, which aims to collect, especially from market participants, preliminary views on the impacts the implementation of these standards into EU law may have.

Expert Group on Barriers to Free Movement of Capital (EGBFMC)
This Working Party was established in December 2014 under the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). Its aim is to identify possible barriers to free movement of capital across all Member States. Where existing barriers to free movement of capital are identified, the group will assess whether such barriers can be removed through harmonisation, in which case it will propose to the Commission that the issue be referred to the appropriate group. Where these barriers are of a national character, it will be up to Member States to undertake to eliminate such an obstacle.

In 2017, the group focused on the issue of withholding tax and, in cooperation with tax experts, contributed to the creation of best practices in the form of a code of conduct. The Subgroup on Financial Literacy met twice and Subgroup on Pension Funds met once. In relation to national consumer protection, a questionnaire survey was conducted to determine whether its nature is restricting the cross-border provision of retail financial services. In addition, the group dealt with the cross-border provision of investment funds and the requirement for the head office of the financial institution’s governing body.

In view of the lack of Member States’ initiative to come up with new topics, the future work of the expert group on barriers is uncertain. This also due to the fact that, in order to support the removal of obstacles to free movement of capital declared at EU level, Member States do not take specific steps at national level, and issues are addressed in parallel on other platforms.

Expert Group on Non-performing loans (EGNPL)
The EGNPL was set up in 2017 to further discuss the proposed approaches to reducing the current high NPL levels in some Member States following the adoption of the Action plan to tackle NPLs in Europe in July 2017 in order to avoid their future increase again. The Action Plan, which set out proposals of measures for individual European institutions and a timetable for their implementation, includes a number of areas: improvements in financial market supervision, development of a liquid secondary market for NPLs, loan enforcement including insolvency and restructuring of the EU banking sector.

In 2017, the Expert Group met twice (in September and December) and discussed to varying degrees all proposals of the Action Plan. The most significant progress in the negotiations was reached around the turn of the years 2017 and2018 on the Commission’s proposal for a prudential backstop, which sets the minimum loss coverage from newly created non-performing exposures (wider concept of bank assets, i.e. they also include NPLs). The relevant CRR revision proposal was subsequently published in March 2018 as part of the NPL package. The package also includes a proposal for a directive that includes both the concept of an accelerated extrajudicial collateral enforcement (AECE) and a licensing and supervisory framework for non-bank loan servicers of bank loans. Both these proposals are further discussed at the level of the EU Council working groups.

Council of the European Union / ECOFIN

The Council of the European Union (informally referred to as the Council of the EU or the Council) brings together the ministers from the Member States, who meet and adopt legislative acts and co-ordinate the functioning of individual policies. The key tasks performed by the Council of the EU include approving the EU's legislation, co-ordinating the main direction of the economic policies of the Member States, signing agreements between the EU and other countries, approving the annual budget, developing the EU's foreign and defence policies, and co-ordinating the co-operation between the judicial organs and the police authorities in the Member States. The presidency of the ECOFIN Council rotates every six months according to a pre-approved sequence (the Czech Republic held the presidency during the first half of 2009, and it will held the presidency again in the second half of 2022; in 2017, the presidency was held by Malta and Estonia, in the first half of 2018 by Bulgaria). The Council of the EU does not have any permanent members, however, there is an exception, the Foreign Affairs Council (FAC), chaired by the High Representative of the Union for Foreign Affairs and Security Policy. This office is currently held by Federica Mogherini. Each of the Member States sends its representative (minister) responsible for a particular area of policy to each of the meetings of the Council of the EU. The Council of the EU thus meets in various compositions (there are ten in total) according to the area to which the discussed materials belong.

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

The preparatory committee for the Council of the EU meetings is the COREPER, which also has two configurations—COREPER II has subject-matter competence over the area of financial markets.

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

Approval of legislative proposals in all Council of the EU configurations has the same weight—where there is consensus on a proposal of all Member States at lower levels (Working Party, COREPER), the proposal may be referred to the Council of the EU for approval without discussion (as an A point). It can then be approved by any configuration of the Council of the EU (usually the one meet first); on the contrary, proposals falling under the competence of other Council of the EU configurations may also appear on the ECOFIN Council agenda as "A points".

In 2017 the ECOFIN configuration of the Council of the EU approved the General Approach documents for the Commission's proposals that were discussed by the Working Party on Financial Services. Other tasks included discussion and the provision of information about the agendas associated with economic policy, Banking Union, revision of the European System of Financial Supervision (ESFS), NPLs, taxes, promotion of investment or capital movements.

During the individual meetings, the ECOFIN Council:

- It discussed the completion of post-crisis banking reform by the Basel Committee on Banking Supervision, focusing on the progress made in the previous stages (since November 2016) and on other steps; it has decided not to oppose the adoption of the Commission delegated regulation supplementing the CSD Regulation[79] (27 January 2017);

[79] Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

- it endorsed the draft Council Conclusions on the Special Report of the European Court of Auditors 29/2016 entitled "Single Supervisory Mechanism - Good start but further improvements needed" (21 February 2017);
- it adopted recommendations on the Banking Union and the further development of Economic and Monetary Union; it discussed the outcome of the March meeting of the finance ministers and central bank governors of the G20 (21 March 2017);
- it discussed the Commission's report on accelerating work on the CMU and addressing national barriers to the free movement of capital; it also discussed the annual report of the Economic and Financial Committee on the movement of capital and freedom of payments (23 May 2017);
- it has agreed on its position on the part of the banking sector risk-mitigation package concerning the ranking of unsecured debt instruments in insolvency proceedings and transitional measures for the gradual impact of the introduction of IFRS 9 on regulatory capital (including provisions allowing, during the transitional period, the gradual implementation of limits for large exposures in sovereign exposures denominated in Member State's currency other than in the national currency) (16 June 2017);
- it has approved the Action Plan to tackle NPLs in Europe; it adopted the Conclusions on the Commission Communication the mid-term review of the CMU Action Plan (11 July 2017);
- it has decided not to object to the adoption of a delegated Commission regulation supplementing the MiFIR and amending the CRR as regards the exemption from capital requirements for certain covered bonds (10 October 2017);
- it discussed proposals aimed at strengthening financial supervision and promoting the integration of capital markets in Europe in the form of the so-called ESFS review; it has decided not to object to the adoption of a Commission delegated regulation on the final system of administrative expenditures of the Single Resolution Board (SRB) (7 November 2017);
- it assessed the work on the risk reduction package in the banking sector and on the proposal for a European Deposit Insurance Scheme (EDIS); it submitted the Communication from the Commission: First progress report on the reduction of NPLs (5 December 2017).

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

The Financial Services Committee (FSC) and the Economic and Financial Committee (EFC) are two of the ECOFIN Council's permanent committees. They have a permanent chairman, they do not apply a rotating presidency rule. The FSC provides a forum for the preliminary expert level discussion of issues associated with financial services and, together with the EFC, takes part the preparations for the individual ECOFIN Council meetings. Representatives from the ministries of finance of the Member States, the Commission, the ECB, and the European supervisory authorities (ESAs - EBA, ESMA, and EIOPA) participate in the activities of the FSC. The EFC's activities primarily consist of monitoring the economic and financial situation in the Member States, the Eurozone, and the EU as a whole; submitting reports to the ECOFIN Council and to the Commission and participating in the preparation of the Council of the EU's activities in the economic and financial sector. The range of topics covered by the EFC is thus significantly broader than in the case of the FSC. EFC meetings are held with the participation of representatives from the ministries of finance of the Member States, the Commission, the ECB, and the national central banks.

The financial market topics discussed by these committees in 2016 included the Banking Union, CMU, sustainable finance, ESFS review, the use of innovative technologies in the financial markets (FinTech), NPLs, recovery and resolution in the banking and insurance sector, stress tests, financial sector assessment programmes, corporate bonds, deepening of Economic and Monetary Union (EMU), financial market developments, OTC derivatives, central counterparties and trade repositories, PEPP, consumer protection, preventive restructuring and economic situation in the Member States.

Working Party on Financial Services (D03)

The Working Party on Financial Services is one of the Council of the EU's preparatory bodies, which discusses the relevant Commission proposals for financial market legislation prior to the time they are submitted to the COREPER II and ECOFIN Council. The Working Party thus covers a wide range of topics which vary according to the current stage of negotiations regarding a particular legislative proposal and if any new proposals were published. The meetings of this working party include the participation of experts from the individual Member States, who are led by the expert from the presiding EU state. In most cases, the Member States are

represented by their financial attachés only during later phases of the discussion on the proposals. In 2017, the working group started discussing the proposal for a PEPP regulation, a package of three legislative proposals reviewing the ESFS, and continued negotiations on a package of legislative proposals to reduce the risks in the banking sector, and completed the discussion of STS securitization, prospectus, MMFs, EuVECA and EuSEF funds.

Ad Hoc Working Party on Strengthening the Banking Union (AHWP)

The Ad Hoc Working Party on Strengthening the Banking Union, whose first meeting took place in January 2016, was established to discuss the Commission's proposal to establish EDIS and Commission's communication on the completion of the Banking Union, dealing in particular with the issue of risk reduction of financial systems. During 2017, the working group continued to discuss the Commission's proposals, and the negotiations continue into 2018.

More information on the individual proposals that were discussed is provided in Chapter 9.3.

European Council

The European Council (EC) is the European Union's most important political body and comprises the highest representatives from the Member States (heads of state and prime ministers) and the President of the Commission. The EC meets at least four times a year and defines the general political directions for the EU. The EC does not perform any legislative functions. The outcomes of each meeting of the EC are EC conclusions*. Their purpose is to identify specific issues that are important for the EU, and to outline specific measures to be adopted or objectives to be achieved. The EC conclusions may also set a deadline for reaching agreement on a certain matter or for presenting a legislative proposal. The EC may thus influence the EU's political agenda and determine its direction. The EC has a permanent president (Donald Tusk was re-elected in 2017); however, the neither permanent president nor the Commission President participates in EC voting. Decision-making of the EC takes places, with a few exceptions, through consensus. After each of its meetings it is obliged to submit a report on its meeting to the European Parliament. The EP also receives an annual written report prepared by the EC regarding the progress achieved by the Union (this will be discussed by both the EC of the EU and the European Parliament).*

During its meetings in 2017, the EC also focused on the Banking Union. Leaders reiterated the need to complete the Banking Union as regards the reduction and sharing of risks in the financial sector. In connection with the United Kingdom's exit from the EU, it was necessary to decide on the relocation of two EU agencies (EBA and the European Medicines Agency – EMA) located in the United Kingdom. At its meeting in December 2017, the euro summit discussed the future of the EMU and the Banking Union. The chairman of the EC identified three priorities for which broad consensus across Member States should be found. These priorities are the introduction of a common backstop for the Single Resolution Fund (SRF), the development of the European Stability Mechanism (ESM) or its transformation into the European Monetary Fund (EMF). Finally, it emphasised the need for further elaboration of Council Conclusions on a roadmap to complete the Banking Union submitted in June 2016, including the gradual introduction of EDIS. Leaders were not expected to adopt any written conclusions at this stage, but to return to discussing these issues in June 2018.

In the context of relative stabilization in financial markets, the EC also addressed other current issues in 2017, such as stopping the flow of migrants, EU security and the fight against terrorism, external relations (the agreement with Iran, the DPRK nuclear program), the EU-Canada trade agreement (CETA), the Paris Climate Change Agreement, Brexit and Europe's digitization initiatives.

9.2 Ministry of Finance's Activities on an International Level

OECD

The Organisation for Economic Co-operation and Development is an intergovernmental organisation of the worlds' thirty-five most developed countries, which have all adopted the principles of democracy and a market economy. The OECD was established in 1961 through the transformation of the Organisation for European Economic Co-operation (OEEC). The OEEC was originally established in 1948 to help administer the post-war Marshall Plan. The main objectives of the OECD include policy coordination for the long-term economic development of member and non-member countries. The OECD coordinates the cooperation of its members in the sphere of economic and social policy negotiates new investments, and because the OECD brings together economically the most important countries in the world, it also has an important role to play in

promoting the liberalization of international trade. The OECD's objectives are to facilitate further economic development; to suppress unemployment; and to stabilise and develop the international financial markets. The most important bodies within the OECD structure include the Council comprising the ambassadors from the OECD member states, the Executive Committee, the Secretariat led by the Secretary – General, and several expert committees.

Some of the OECD's activities transcend the national boundaries of its member states. The International Network on Financial Education (INFE) is only one example. It has 120 countries.

Committee on Financial Markets (CFM)
The CFM is the OECD's main body involved in financial market issues. It provides a platform for discussing the development trends in financial markets and the relevant measures for improving their functioning both in individual countries as well as at the broader supranational level. The members of the CFM consist of representatives from the ministries of finance, central banks, and other regulatory and supervisory authorities. Representatives from international financial institutions, such as the International Monetary Fund, the World Bank, and the Bank for International Settlements in Basel, also participate in the committee's meetings, as well as representatives from associate countries with developing economies. The OECD CFM therefore provides a geographically broader platform for debate and the exchange of experience than is provided by other mechanisms, such as discussions between the member states of the European Union.

A very specific characteristic of the committee's activities consists of the regular meetings with representatives from the private financial sector, at which important topics of common interest to both the public as well as the private sectors are discussed, particularly development trends in the global financial market. The meetings, attended by representatives of world financial institutions, focused on the potential market solutions for problematic financial sector assets and long-term financing of sustainable infrastructure. The meetings focused on topics such as resolution of credit institution, FinTech and sustainable finance. The CFM also addressed the usual issues of market development, as well as the possible implications of FinTech's development or innovations in the segment of private debt instruments in its meeting in April 2018.

Advisory Task Force on the OECD Codes of Liberalisation (ATFC)
The ATFC usually meets during the same period as the CFM. The main participants at the Task Force meetings include some of the members of the CFM, the IPPC, and the OECD Investment Committee from various countries. The discussions again focused on the revision of the OECD Code of Liberalization, its procedural functioning and other technical aspects.

Task Force on Financial Consumer Protection (TFFCP)
The key objective of the TFFCP under the OECD is to prepare international standards for consumer protection on the financial market, particularly as regards the supervisory architecture, the rules for dealing with clients, the resolution of consumer disputes, financial education, and financial inclusion. These high-level principles reflect to a considerable degree the examples of already functioning regulatory practices in the EU, however, the process also acts retroactively as a sample for new regulation (particularly for the OECD countries that are not EU Member States). In 2017, the OECD launched preparatory work on the revision of consumer credit recommendations. The draft revised Recommendation is expected in autumn 2018.

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

In 2017, the Committee had on the agenda a joint meeting with the Task Force on Insurance Statistics, a roundtable on Islamic insurance concept and its development, as well as the structure and arrangements for regulation and supervision in individual countries, including reports on financial management of the earthquake risk, technology and innovation in the insurance sector, a draft report on the project on cyber risk

insurance, a proposal for a health and long-term care insurance project, and a project proposal for the reinsurance role including alternative risk transfer mechanisms.

Working Party for Private Pensions (WPPP)
The WPPP addresses similar topics as the IPPC, however, it places greater focus on the pension fund sector, its asset managers, and the participants in private pension schemes, both individual and employee ones. In 2017, it addressed topics such as FinTech, Robo-Advice, tax incentives and other private pension incentives, private pension costs, defined benefit pension plans and their current situation. The group held the meeting together with the International Organization of Pension Supervisors (IOPS) to address, among other things, supervisory issues such as the revision of the IOPS Supervisory Principles on Private Pensions. The Task Force also addressed the accession processes of Lithuania and Costa Rica. Task Force on Pension Statistics also held a meeting, focusing in particular on the methodology for collecting data for OECD global statistics.

International Network on Financial Education (INFE)
The International Network on Financial Education is a platform comprising the institutions of not only the OECD member states (as a rule, the ministries of finance and the central banks). Its role is to create strategic documents at the global level. The Network's website[80] provides a gateway to information about financial education and the data, resources, research. The MoF has been a member and national INFE coordinator since its establishment in 2008.

In the course of 2017, INFE issued an investment education framework and a report on financial education for micro, small and medium-sized enterprises (MSMEs) and potential entrepreneurs. INFE cooperated with International Organization of Securities Commissions (IOSCO) to research the application of knowledge from behavioural economics to financial education and financial literacy programmes. INFE dealt with financial education and consumer protection in the financial market in the digital age and created G20 principles on the impact of digitisation on financial services. It also updated the methodology for measuring financial literacy and financial inclusion and the document on financial prosperity.

In 2018, the consolidation and update of all standards, recommendations and tools of financial education issued since the establishment of the INFE network and the creation of financial literacy competencies for MSMEs will continue. Based on the results of the questionnaire sent to the members of INFE, activities concerning short-term loans will continue.

G20

The G20 brings together the finance ministers and the central bank governors from nineteen countries[81] and the EU (which is represented by the presiding member state and the ECB). The G20 was established in 1999 as a forum in which the leading world economies are able to exchange their opinions regarding key issues related to the global economy. The Czech Republic is not a member of the G20 but is de facto represented by the representative for the European Union.

The group was presided by Germany in 2017, and during the summit held in Hamburg (7.-8. July 2017), leaders, among other things:

- reiterated support for the completion of the Basel III framework, without further significant increase in capital requirements in the banking sector and with the support for level playing field;
- continued to monitor and address emerging risks and vulnerabilities in the financial system;
- highlighted the significant progress made in transforming shadow banking into resilient market-based financing and welcomed the Financial Stability Board's (FSB) assessment of monitoring and policy tools to address shadow banking risks;
- recognized that the hazardous use of information technology could jeopardize the financial situation, and therefore welcomed the further work of the FSB in this regard;
- supported the improvement of the system for international capital flows and stressed the need to promote sustainable financing practices.

[80] http://www.financial-education.org/, http://www.oecd.org/finance/financial-education/
[81] The member states of the G20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the USA.

9.3 European Financial Market Legislation

European Deposit Insurance Scheme (EDIS)
On 24 November 2015, the Commission published a proposal of a regulation supplementing the Single Resolution Mechanism Regulation (SRMR)[82] with a view to establishing a European Deposit Insurance Scheme (EDIS). The system is intended to complement existing Banking Union pillars with the aim of increasing depositor protection, consolidating financial stability and reducing the link between banks and states at national level. The proposal should apply to deposit guarantee schemes in Member States participating in the Banking Union and to credit institutions associated with them. Based on the Council conclusions of 17 June 2016, the EDIS work continues at a purely technical level.

The issues discussed in 2017 were*, inter alia,* the scope of EDIS, i.e. whether it is appropriate to include branches of third country banks established in one of the Member States, but with head office outside the EU, and deposit institutions which are non-CRD/CRR entities, but are included under the existing national Deposit Guarantee Scheme (DGS). Another contentious issue to be addressed is alternative measures under the Deposit Guarantee Schemes Directive (DGSD), namely whether and to what extent their use can be covered by the common fund. Concerning the compliance and possible disqualification of the national DGS from EDIS coverage, it is generally considered that exclusion should only be the last resort, which should be preceded by a number of milder corrective measures; for this purpose, the staggered intervention ladder was designed and continuously refined. The AHWP also discussed setting up a methodology for calculating bank contributions to the EDIS fund; for this purpose, the Commission carried out a series of quantitative analyses, and it has been generally agreed that the contributions will be risk-based and such a methodology will be part of the level one legislative text. Regarding the final design and discussion of alternative models and individual phases of EDIS, this will be the subject of subsequent political negotiation; the AHWP therefore addressed this issue only marginally in 2017. There is a majority agreement within the AHWP that the existing effect analysis should be extended to include the impacts of EDIS on Member States outside the euro area and on the internal market.

Capital Requirements (CRD IV and CRR)
Work on the preparation of legislative proposals and delegated regulations based on CRD IV and CRR (published in the Journal of 27 June 2013) continued in 2017. It is a Commission delegated regulation on regulatory technical standards specifying other objective criteria for the application of the preferential liquidity outflow or inflow rate for cross-border undrawn credit or liquidity facilities within a group or an institutional protection scheme, the waiver on own funds requirements for certain covered bonds, regulatory technical standards for disclosure of encumbered and unencumbered assets, or for materiality threshold for credit obligations past due.

In addition, in 2017 the Commission published implementing regulations laying down implementing technical standards with regard to common procedures, forms and templates for the consultation process between the relevant competent authorities for proposed acquisitions of qualifying holdings in credit institutions, and the implementing regulation on the extension of the transitional periods related to own funds requirements for exposures to central counterparties.

Risk Reduction in the Banking Sector (RRM)
On 23 November 2016, the Commission presented a package of five legislative proposals aimed at reducing risks and strengthening the banking sector in the EU. The package includes a revision of the CRD IV, CRR, BRRD[83] and SRMR.

As part of the CRR revision, it was agreed that the selected topics will be removed from the package and discussed in an accelerated procedure. Specifically, this concerns the issue of transitional periods to spread the impact of the introduction of new IFRS 9 accounting standards on regulatory capital and the issue of transitional provisions on large exposure rules with the aim of enabling supervisors, in the case of exposures to governments and central banks denominated in the currency of another Member States, to reduce the share of such exposures gradually over a 3-year transitional period. This area is regulated in the regulation on

[82] Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010.

[83] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds[84], which came into effect on 1 January 2018.

Other changes to prudential regulatory rules in CRD and CRR concern the modification of Pillar 2 rules (e.g. the prohibition to use Pillar 2 tools for macro-prudential purposes), proportionality (e.g. in reporting, disclosures by institutions or remuneration), the introduction of intermediary institution for two or more subsidiaries in the EU that are part of a group with a third-country parent company, the introduction of a binding leverage ratio and a binding liquidity requirement for net stable funding ratio, and the projection of some changes introduced by the Basel Committee on Banking Supervision.

The main reason for the revision of the BRRD (and analogous revision of the SRMR) is a conceptual adjustment of the current rules on the Minimum Requirement for own funds and Eligible Liabilities (MREL) in relation to the implementation of Total Loss Absorbing Capacity (TLAC) rules, which was introduced by FSB. Other changes include the harmonization of the debt suspension facility (moratorium tool) and the adjustment of the provisions regarding the contractual recognition of write-down or conversion powers towards bail-in able liabilities. In order to allow for a more effective bail-in in the event of resolution, a separate legislative proposal – the directive on the ranking of unsecured debt instruments in insolvency hierarchy[85] – supplementing the BRRD proposed a modification of the ranking of unsecured debt instruments in insolvency hierarchy, which was discussed in a fast-track procedure. On 15 November 2017, the Council and the European Parliament agreed on the form of this arrangement for the ranking of creditors in insolvency, and on 27 December 2017 the Directive was published in the Journal.

Changes that did not form part of the above-mentioned fast-track procedures are discussed through the Working Party on Financial Services in order to reach a general approach in May 2018.

European System of Financial Supervision (ESFS)

On 20 September 2017, the Commission presented a package of three legislative proposals revising the ESFS[86]. The package includes the revision of the ESAs (i.e. EBA, ESMA and EIOPA) and the European Systemic Risk Board (ESRB), the revision of the MiFID and Solvency II as well as the revision of the EMIR. Through these proposals, ESAs are entrusted with new powers (e.g. powers related to the Strategic Supervisory Plan), modifying their governance structure and how they are funded. They expand ESMA direct supervision areas for European venture capital and social entrepreneurship funds (EuVECA and EuSEF) and long-term investment funds (ELTIFs), data reporting service providers, selected prospectus categories and benchmarks. EIOPA's powers related to internal model approval are also expanded. Within the ESRB, changes are proposed to enhance its efficiency and also reflect the emergence of the Banking Union.

In general, the Czech Republic does not support the Commission's proposal although it is prepared to have a discussion on issues that may potentially improve the functioning of ESAs (e.g. changes in the ESRB, assessment of the third-country equivalence regime, more frequent consultation of the guidelines and recommendations, including the possibility of their cancellation). In particular, the Czech Republic considers especially the proposed governance changes to be problematic, particularly as regards the establishment of an executive board and the powers conferred on it and changes in funding. The changes are also inconsistent with the results of the public consultation in spring 2017 and do not respect the principles of proportionality and subsidiarity.

[84] Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.

[85] Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy.

[86] Proposal for a Regulation of the European Parliament and of the Council of 20 September 2017 Amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority); Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority); Regulation (EU) No 345/2013 on European venture capital funds; Regulation (EU) No 346/2013 on European social entrepreneurship funds; Regulation (EU) No 600/2014 on markets in financial instruments; Regulation (EU) 2015/760 on European long-term investment funds; Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; and Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market.

Relocation of the European Banking Authority (EBA)

Following the United Kingdom's decision under Article 50 of the EU Treaty to leave the EU, UK-based European institutions have to move to the EU. In autumn 2017, the EBA's new seat was being selected. On 20 November 2017 at the General Affairs Council, the 27 remaining Member States chose Paris as the new seat of EBA. Member States have agreed in advance that they will respect the outcome of the vote. The Commission subsequently put forward a proposal for a regulation[87], which aims to amend Article 7 of the regulation as regards the location of the seat of the EBA, thus confirming the new EBA's seat. At COREPER on 11 December 2017, agreement was reached on the text of the legislative proposal as Council's position, without any changes to the Commission's proposal. The European Parliament has not yet adopted its opinion on the legislative proposal. The legislative proposal was discussed by ECON on 24 January 2018; the draft report of this committee was published in February 2018.

Money Market Funds (MMFs)

Money Market Funds Regulation[88] actually replaces the guidelines of CESR (Committee of European Securities Regulators, ESMA's legal predecessor) on a common definition of the European Monetary Market Fund (MMF) and develops them. The Money Market Funds Regulation sets out rules on investment instruments in which a MMF may invest, as well as the rules relating to its portfolio, the valuation of its assets and the reporting requirements in relation to the MMF. It also lays down more detailed rules for investing in securitisations, internal rating requirements, "know your customer" policy, stress tests, liquidity fees and gates and the ban on external support.

The regulation was published in the Journal on 30 June 2017. In connection with its effect on 21 July 2018, the Czech law must be adapted to the regulation. It was adapted especially by the amendment to the Government Regulation on the investing of investment funds[89], which the government approved on 23 May 2018.

Capital Markets Union (CMU)

The CMU project aims to improve access to finance in the EU internal market, in particular for SMEs and infrastructure projects, as well as greater diversification of financial resources and possibilities of investments and overall improvement of the functioning of EU capital markets and their better interconnection. In June 2017, the Commission presented CMU Mid-Term Review, which includes an evaluation of the current work and some new initiatives for the further development of the CMU, and the Council adopted conclusions to it in July 2017. In the second phase of the CMU, several proposals have already been published, which, according to the Commission, are necessary to further strengthen capital markets in the EU. In June 2017, this involved a legislative proposal for the PEPP Regulation, in September 2017 a legislative proposal on ESAs and ESRB and in December 2017 a proposal regulating revised capital requirements for securities traders (prudential requirements). The Commission is also continuing with the "Call for Evidence: EU regulatory framework for financial services".

Prudential requirements of investment firms (IFS)

On 21 December 2017 the Commission published a set of rules – proposals for a regulation and a directive – revising the prudential requirements for investment firms[90], so far included in the CRR and CRD. The negotiation of the proposal was launched in January 2018.

The new rules were created primarily to strengthen capital markets and create the CMU, where the Commission aims to streamline the prudential and supervisory framework for investment firms. The proposal should reflect the size and nature of the investment firms according to their activities and, adapt accordingly the capital, governance, reporting and other requirements. This should lead to increased competition, better access for investors to new opportunities and more effective risk management.

Investment firms are newly divided into three classes: Class 1 investment firms are considered to be systemically significant and the prudential requirements for them do not change (the Commission proposes that they be considered banks). Class 2 investment firms will be subject to simplified requirements. Class 3

[87] Regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 as regards the location of the seat of the European Banking Authority.

[88] Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.

[89] Government Regulation No 243/2013 Coll., on the investing of investment funds and techniques for their management, as amended.

[90] Proposal for a Regulation of the European Parliament and of the Council of 20 December 2017 on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010 and Proposal for a Directive of the European Parliament and of the Council of 20 December 2017 on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU.

investment firms will receive significant relief and will be exempt from certain requirements (e.g. governance and remuneration requirements).

The Czech Republic generally welcomes the creation of a specific regulatory regime for investment firms. The general weakness of this proposal is inconsistent terminology, particular references to the CRR, an amendment to the definition of a credit institution, and the Commission's empowerment to issue delegated acts.

Securitization and STS Securitization
Securitization and STS Securitization Regulation[91], which was published in the Journal on 28 December 2017, harmonises in particular the securitization requirements and regulates the rules laid down in sectoral legislation. These are the basic rules for due diligence, risk retention and transparency. It also sets new rules for STS securitisation, which is a new voluntary European label for less risky securitisations (simple, transparent and standardised). This is also linked to lower capital requirements for banks proposed in the CRR amendment. On the Czech market, securitization is not yet largely used, mainly because of the sufficient liquidity (of banks and businesses) and the potentially low volume of trades from which is generally required for securitization to be profitable. Greater use of securitisation in the Czech Republic can thus not be expected in the future either. In the negotiations, the Czech Republic aimed especially at the clarity and ease of application of this regulation.

This directly binding EU regulation takes effect on 1 January 2019. In this context, the Czech law needs to be adapted to the regulation. This adaptation will be done by the Capital Market Business Act[92], which will be amended by the forthcoming draft amendment to the Bonds Act and other related acts (Parliamentary document No 93).

Prospectus
The Prospectus Regulation[93] published on 30 June 2017 in the Journal replaces the regulation in the Prospectus Directive[94] and is the first approved EU regulation under the CMU creation initiative. The aim of the published regulation is, in particular, to facilitate stock and bond issuers to access capital markets. For example, frequent issuers (i.e. issuers issuing securities more than once a year) benefit from shorter time for their approval by the supervisory authority (CNB). Smaller issuers now benefit from a simpler form of the prospectus in the form of the EU Growth Prospectus; the prospectus summary is revised to make it shorter. This regulation becomes effective on 21 July 2019 and replaces the Prospectus Directive. In this context, the Czech law needs to be adapted to the regulation. This adaptation will be made by an amendment to the Capital Market Business Act.

Insurance Sector
The adoption of EU implementing acts for the Solvency II Directive continued. The insurance sector is also concerned by the securitization and STS securitization regulation a published in 2017. In addition, the Commission is preparing, in cooperation with EIOPA, a revision of the implementing regulation for the Solvency II Directive.

Pan-European Pension Product (PEPP)
On 29 June 2017, the Commission adopted a proposal for a regulation on Pan-European Personal Pension Product. In the justification for the proposal, the Commission states that the proposed legislation aims to lay the foundations for a safer, more cost-effective and transparent market for voluntary pension on a pan-European scale. According to the Commission, the fragmentation of the European market prevents providers of personal pension products from maximizing risk diversification, introducing innovations and economies of scale. According to the Commission, the regulation also helps resolve the demographic crisis, complement existing pension products and promote the cost-effectiveness of personal pension products by providing appropriate options for long-term investment in personal pensions. Other objectives of the proposal are to increase capital and its direction towards European long-term investment in the real economy and to support

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[91] Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012.

[92] Act No 256/2004 Coll., on Capital Market Business, as amended.

[93] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

[94] Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC.

the cross-border provision and transferability of the PEPP. The offer of enhanced product features should ensure that participants benefit from a simple, safe and cost-effective personal pension product, and can choose from different types of PEPP providers. The draft regulation is still under discussion in the Working Party on Financial Services.

Insurance Distribution (IDD)

The objective of the Insurance Distribution Directive (IDD)[95] is to strengthen consumer protection, especially in the life insurance segment. Furthermore, the requirements imposed on insurance intermediaries and insurance companies are made equal, which is to ensure the same standard of expertise and professional care in dealing with clients. The directive also introduces some new elements governing cross-border insurance distribution, including supervisory practices. Given a number of unclear implementation issues and the Commission's delay in issuing the relevant implementing legislation, the Member States, with the support of the European Parliament, enforced in late 2017 both the deferral of the Directive's effect (newly on 1 October 2018) and the time limit for its transposition (newly on 1 July 2018). In the Czech law, the Directive will be implemented by the Distribution of Insurance and Reinsurance Act.

Key Information for Retail Investment Products (PRIIPs)

On 1 January 2018, the regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs)[96] became effective. It is a legal regulation introducing an obligation for the creator of an investment product to provide the client with a set of pre-contractual information whose content, format and scope is standardized by this regulation. The main purpose of the regulation is to unify the information obligations for different types of investment products, from classical mutual funds, through life insurance to various structured bank deposits. National pension schemes are, however, excluded from the scope of the regulation. Originally, the regulation should have been effective as early as in late 2016. The one-year delay was due to slow preparation of the relevant implementing legislation.

OTC Derivatives, Central Counterparties and Trade Repository (EMIR)

The Regulation on OTC derivatives, CCPs and trade repositories (EMIR), entered into force already in 2012, but it is becoming effective gradually as particular implementing legislation is issued. This include, in particular, legislation confirming the equivalence of the regulatory framework for CCP of third countries, i.e. non-EU countries (USA, India, Singapore, etc.), and legislation specifying the clearing obligation, including reporting requirements. Specifically, in 2017, the Commission delegated regulation extending the transitional periods for pension funds, which makes them temporarily exempted from the central clearing obligation, i.e. clearing through the CCP, came into effect. Furthermore, Commission implementing decision confirming the equivalence of USA legal, supervisory and enforcement legislation. At the same time, two proposals amending the EMIR were published by the Commission, which, given their importance, will be given separate attention.

It is important to note that EMIR's main objective was to address the shortcomings in the functioning of the OTC derivatives market identified during the financial crisis, in particular to limit systemic risk by increasing the transparency of the OTC derivatives market, mitigating counterparty credit risk and reducing operational risk associated with OTC derivatives. In addition to CCPs, regulated entities also include trade repositories and financial and non-financial institutions.

Revision of EMIR

On 4 May 2017, the Commission published the first of the above-mentioned proposals amending the EMIR within the Regulatory Fitness and Performance Programme (REFIT)[97]. This proposal takes into account the results of the EMIR review carried out by the Commission following the EMIR requirement (Article 85 (1)). The review has shown that the EMIR is successful as a whole, in terms of increasing transparency and reducing the risks identified, but in case of specific requirements, the practical experience so far has shown space for improvement. The changes therefore do not affect the framework as such (all the key elements are preserved) but their purpose is to simplify the rules and ensure their greater proportionality without jeopardizing financial stability.

[95] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast).

[96] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

[97] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories.

For example, optimizing information sharing, approving risk management procedures or reporting obligations, or introducing a mechanism to limit central clearing in situations other than resolution (CCP resolution is addressed in a separate proposal – see CCPRR below) should help simplify and improve the effectiveness of existing requirements. Adjustment of the scope of the clearing obligation, both for transactions and for entities, should make it possible to reduce uneven costs and burdens.

Regarding the proposed changes which are expected to reduce administrative burdens and compliance costs, the Czech Republic welcomes this initiative. As regards the stage of the negotiations, a general approach was reached at the end of 2017 and trialogues should be launched in 2018. Given that the proposal is widely supported, it can be assumed that it will also be adopted in 2018.

Central Counterparties Supervision

On 15 June 2017, the Commission published the second of the proposals amending the EMIR and ESMA Regulation[98]. This proposal responds to the fact that CCPs, in relation to the introduction of the clearing obligation, concentrate increasing risks and they are becoming interconnected not only in the EU but also in third countries. It aims, in particular, to adapt the concept of supervision to this development in order to achieve greater integration of the financial market, financial stability and a level playing field, and to ensure in the EU, or CMU, the existence of an effective and consistent supervisory system.

As non-compliant aspects of the current supervisory approach, which operates on a college basis, were mainly identified the power of the national supervisory authority to coordinate supervisory activities, the risk of regulatory and supervisory arbitrage resulting from the different application of the underlying requirements and the insufficient reflection of the role of central banks. Certain shortcomings, e.g. concerning access to and sharing of information, are also seen in the context of the system of equivalence and recognition of CCPs from third countries. This should lead to both the modification of authorisation (recognition) and oversight of CCPs, and the strengthening of the associated ESMA powers.

The Czech Republic takes a rather reserved position towards the proposed changes. In its view, adequate supervision can also be ensured in the EU through more moderate means, especially in situations where the existing mechanism does not fail, either globally or fundamentally.

As regards the negotiations stage, negotiations are taking place in the Council at the time of the preparation of the Report.

Central Securities Depositories (CSDR)

The regulation on central securities depositories is a part of a recently popular trend in the regulation of the market infrastructure. Although it came into force in 2014, it is becoming effective gradually. In 2017 some measures specifying the calculation of financial penalties, authorization, supervision and operational or prudential requirements became effective.

It should be noted as a reminder that the main objective of the regulation is to increase the security of settlement system operations and to remove the legal obstacles that exist due to the national provisions on the functioning of the systems and the central depositories as the operators of these systems, particularly the obstacles associated with differing provisions for settlement periods and the standards for central securities depositories from the perspective of prudential regulation and the ability to access to the national central securities depositories and the systems operated by them. In the long run, there should be a full dematerialisation or immobilisation of all securities traded in organised markets.

Central Counterparty Crisis Resolution (CCPRR)

On 28 November 2016, the Commission published a proposal for a regulation on the recovery and resolution of central counterparties. The proposed regulation responds to the fact that the requirement for mandatory central clearing introduced by the EMIR has, on one hand, limited certain risks and has also improved transparency and pricing, but, on the other hand, has contributed to other problems. In particular, there was a concentration of the risks of default in the settlement of derivatives trades with central clearing by all financial and large non-financial institutions in a limited number of CCPs, or their groups.

[98] Proposal for a Regulation of the European Parliament and of the Council of 14 June 2017 amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs.

The large concentration of risks in CCPs would, in the case of their failure, very likely lead to a spill over effect in the failure of clearing members, which are mainly large banks, and their clients across the EU and beyond, and trading on stock exchanges in the EU and other trading platforms using CCP services would stop and the whole European financial system would be greatly weakened.

The declared objective of the proposal is to adopt a unified approach that will address the systemic risk of CCPs proportionally in order to ensure financial stability, preserve the essential functions of the financial market and protect taxpayers. In line with this objective, the proposal introduces new institutes, the most important of which is a resolution authority and a concept of colleges, recovery and resolution plans, early intervention, resolution measures and guarantees, an a "no creditor worse off" principle.

The Czech Republic generally welcomes the Commission's proposal to address possible default of CCP systems. In the position of a country that has no CCPs of its own, it seeks primarily to ensure that future legislation provides sufficient protection for the clearing members, their clients and these clients' clients.

As regards the stage of the negotiations, negotiations are ongoing in the Council, and a further significant progress will largely stem from the success of the parallel discussions on new supervisory concept, in particular the proposals of ESAs Regulation and EMIR CCP Supervision Regulation.

Venture Capital and Social Entrepreneurship Funds (EuVECA/EuSEF)
On 10 November 2017, the amendments (with effect from 1 March 2018)[99] to the EuVECA Regulation[100] and the EuSEF Regulation[101] were published in the Journal, which aim to support the creation of EuVECA and EuSEF. This is to be achieved, in particular, by making the EuVECA and EuSEF funds available to managers authorized under the Alternative Investment Fund Managers Directive[102] by expanding the investment opportunities of the EuVECA and EuSEF funds and by simplifying the cross-border offering of EuVECA and EuSEF funds. This should ultimately lead to an improved access of SMEs to financing through the capital market.

Retail Financial Services and Consumer Protection in the Internal Market
On 23 March 2017, the Commission presented its Consumer Financial Services Action Plan, which proposes possible measures to remove barriers between Member States in the area of retail financial services. This Action Plan builds on the 2015 Green Paper on Retail Financial Services. According to the Commission, its aim is better integration of the European financial services market, which is expected to bring more competition and, consequently, a fall in prices, particularly through digital technologies. If this target is achieved on a market-based basis, the Commission is willing to abandon regulatory action.

The Action Plan sets targets in three key areas: increasing consumer confidence and strengthening their position in negotiating financial services at home and in other Member States, removing legal and regulatory barriers to the provision of financial services abroad, and promoting the development of an innovative digital world, which can help overcome some of the existing barriers of the single market.

In support of the above objectives, the Commission has identified 12 measures aimed at:
1. reducing cross-border transaction charges in all Member States;
2. greater transparency of exchange rates;
3. simplifying the change of financial service providers and products;
4. improving internet comparison of financial services;
5. better protection of victims of traffic accidents in the event of insurer's insolvency and recognition of certificates of clean claims record under previous insurance in other Member States;
6. more transparent pricing of insurance in car rental companies;
7. deepening and enhancing the security of the single consumer credit market, including the inclusion of new forms of credit, e.g. through P2P platforms, and streamlining of solutions to over-indebtedness of individuals;
8. reducing legal and regulatory barriers for people providing consumer loans in another Member State;

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[99] Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds.

[100] Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds.

[101] Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds.

[102] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

9. simplification of cross-border consumer lending, including standardization of creditworthiness assessment across the EU and minimum harmonized shared content of debtors' registers;
10. determining how best to foster the development of financial technologies and a single technology-driven financial services market;
11. promoting online contracting and remote customer identification;
12. evaluation of the current distance selling regime for financial services, including information obligations and the possible need to change this regime.

On 17 May 2017, the EU adopted a regulation on establishing a Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy making in the area of financial services for the period of 2017-2020[103]. This regulation lists the beneficiary of the programme, its objectives, and sets out the activities covered by the programme (research activities, awareness and information activities, activities to strengthen cooperation between members of organizations, and strengthening of advisory activities to promote interests and the status of these members at EU level). It also contains provisions on grant allocation, transparency, amount of funding (maximum EUR 6 million) and protection of EU financial interests.

9.4 National Financial Market Legislation

Financial Crisis Resolution

In February 2017, a Government draft bill was submitted to the Chamber of Deputies amending the Recovery and Resolution Act (Parliamentary document No 1023). The aim of the draft bill is to clarify and supplement some of the previously implemented provisions of the BRRD, such as the provision concerning the requirement to supplement the capital instrument contractual documentation to recognize the CNB's power of write-down or instrument conversion, the CNB's power to oblige institutions to limit exposures to another institution, or the obligation to keep detailed records of financial contracts. Furthermore, the proposed law provides for a new moratorium (i.e. postponed maturity of a liability), only applicable to capital instruments or bail-in able liabilities, that can be imposed for up to eighteen months, even repeatedly. At the same time, some issues of its functioning (e.g. collection of contributions to the Crisis Resolution Fund, approval of internal regulations) are modified by the proposed law on the basis of experience with the functioning of the FMGS. The legislative process was not completed by the end of the parliamentary term and the proposed law with identical wording was re-submitted to the Chamber of Deputies in February 2018 (Parliamentary document No 94).

Czech National Bank

In February 2017, a Government draft bill was submitted to the Chamber of Deputies amending the CNB Act and the Circulation of Banknotes and Coins Act (Parliamentary document No 1009). The legislative process was not completed by the end of the parliamentary term. In the second half of 2017, a part of the original amendment aimed at enabling the CNB to issue commemorative banknotes and coins ("Czech ducats") was re-submitted to the legislative process in order to allow the CNB to issue it on the occasion of the 100th anniversary of the Czechoslovak currency in 2019. The amendment was approved by the Senate on 25 April 2018 and should come into effect in the first half of 2018.

The rest of the original amendment to the CNB Act is being prepared for the reopened legislative process with a deadline for submission to the Government in September 2018. This amendment contains several partial changes and legislative and technical corrections aimed at an easier and, above all, uniform interpretation of the CNB Act. As regards substantive changes, there mainly include an extension of the range of monetary policy instruments and the range of subjects with which the CNB can conclude trades on the free market. Furthermore, it is proposed to complement the CNB's authorization to set the upper limit of selected credit indicators for consumer loans secured by residential property, thereby extending the macro-prudential policy instruments. The proposal also puts forward the possibility for the CNB to set up a legal entity or to participate in one to support performance of its tasks.

[103] Regulation (EU) 2017/826 of the European Parliament and of the Council of 17 May 2017 on establishing a Union programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy-making in the area of financial services for the period of 2017-2020.

Credit Institutions

In March 2017, a draft government act amending the Act on banks and the Act on credit unions was submitted to the Chamber of Deputies. The legislative process was not completed by the end of the parliamentary term, and therefore the amendment is being prepared for the reopened legislative process with a deadline for submission to the government in September 2018. The new proposal is in part a technical amendment, but it will also bring several partial substantive changes. The existing legal regulation of the Act on banks and the Act onCredit Unions will be harmonised mutually and with other sectoral laws, the new Civil Code and the Business Corporations Act. A significant change is also the correction of the method of calculating the settlement amount on the credit union's assets. Last but not least, the draft bill strengthens the protection of bank clients in cases where there is a change or any disposal of the bank's business or its part.

Capital Market

The legislative process of the draft bill amending the Capital Market Business Act and other related laws was completed in 2017. The act[104] was published in the Collection of Laws on 14 July 2017, and became effective in two parts, on 13 August 2017 and 3 January 2018.

This act mainly includes changes in the implementation of several EU regulations on the capital market. Specifically, they are MiFID II, MiFIR, Market Abuse Regulation (MAR)[105], Market Abuse Directive (CSMAD)[106], the implementing directive to MAR[107], Regulation on transparency of securities financing (SFTR)[108], PRIIPs and Regulation on benchmarks (BMR)[109].

The changes resulting from EU law aim to contribute to greater efficiency and transparency of the financial market business. In response to technical progress in this area, a new trading platform in the form of an organized trading facility (OTF) is introduced, high-frequency trading is regulated and new regulation of data reporting services providers (ARM, APA, CTP) are introduced. By adjusting the rules for dealing with customers, investor protection is increased (e.g. the terms of providing independent advisory services are specified). The legal regulation of investment intermediaries in line with other laws regulating the distribution on the financial market is fundamentally reworked (for example, mandatory examinations are introduced). The amendment also modernises the legislation of offences in the capital market.

Bonds

In March 2017, a draft bill was submitted to the Chamber of Deputies amending the Bonds Act[110] and other related laws (Parliamentary Document No 1062), which is a national regulation that nevertheless takes into account existing EU legislation. In particular, the draft bill modernises the existing regulation of mortgage bonds and extends it to other types of so-called covered bonds. It proposes to newly exclude automatic maturity of covered bonds in the event of insolvency of their issuer (bank) and explicitly address the issue of repayment of mortgage loans covered by these bonds. The bill further addresses some of the weaknesses in bond law that have been brought to attention by practice, such as the absence of a security agent, a cover pool monitor, a special administrator of cover pool, or regulation of contingent convertible bonds (CoCos). In relation to insolvency proceedings, the nature of the customer's assets and their surrender to customers is specified. Due to the end of the parliamentary term, the draft bill was not discussed and therefore the identical draft bill was re-submitted to the Chamber of Deputies in February 2018 (Parliamentary document No 93).

[104] Act No 204/2017 Coll., amending Act No 256/2004 Coll., on Capital Market Business, as amended, and supplementing other related laws.

[105] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

[106] Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (Market Abuse Directive).

[107] Commission Implementing Directive (EU) 2015/2392 of 17 December 2015 on Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation.

[108] Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (SFTR).

[109] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

[110] Act No 190/2004 Coll., on Bonds, as amended.

Investment Funds

In April 2017, the Government approved the draft Government Regulation amending the Government Regulation on the investing of investment funds[111]. This amendment mainly abolished the investment limits related to the investing of qualified investors funds. In addition, special funds were allowed to invest up to 10% of their assets in qualified investors funds, and limits were specified in the case of investing of special funds in other investment funds. The Government Regulation was published in April 2017 in the Collection of Laws No 133/2017 with effect from 1 June 2017.

Distribution of Insurance Products

At the end of 2017, a draft bill on the distribution of insurance and reinsurance was presented to the Government. It is a transposition regulation (the implementation of IDD and partly also Solvency II), but it also contains elements of national regulation, addressing, in particular, some issues in the area of concluding life insurance. Within this national regulation, the draft bill currently adopts the distribution regulation standard that is already in place on the capital market and in consumer loans (intermediary authorisations, liability relationships, professional requirements, expertise testing, administrative penalties). In January 2018, the Government approved the draft bill and sent it to the Chamber of Deputies (Parliamentary document No 48). The act replaces the current Act on insurance intermediaries and independent loss adjusters.

Insurance Sector

In September 2017, an amendment[112] was adopted to the Motor Third-Party Liability Insurance Act to which a parliamentary initiative reincluded the right of the Czech Insurers' Bureau to the contribution for the uninsured operation of domestic vehicles. At the same time, it fundamentally changed the obligation to insure this liability, which, from 1 January 2018, covers domestic vehicles registered in the register of road vehicles, regardless of whether they are operated on public roads. This also made the national legislation significantly more harmonised (given the scope of this obligation) with the relevant judgment of the Court of Justice of EU[113]. This amendment was accompanied by the adoption of the amendment[114] to a decree implementing the Motor Third-Party Liability Insurance Act. The amendment to the decree set the amount of the daily rate of that contribution and the amount of costs of out-of-court assertion of Czech Insurers' Bureau's right to this contribution.

Payment Accounts

In 2017, the act[115] amending the Act on Payments and some related acts became effective (partial effect from 13 January 2017, effect of the remainder on 1 March 2017). The act primarily transposes the Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features[116] and implements the Regulation on interchange fees for card-based payment transactions[117]. The law brings an obligation for unification of the terminology of payments, rules for the operation of comparison websites and an obligation to allow of a change of payment account (switching). The law also introduced an obligation of banks to offer a basic payment account.

On 13 January 2018, the new Act on Payments[118] came into effect, which substituted the original Act on Payments of 2009. The law transposes the Directive on payment services in the internal market (PSD II).[119] The law newly regulates modern payment methods through mobile and internet applications, which are an

[111] Government Regulation No 243/2013 Coll., on the investing of investment funds and techniques for their management, as amended by Government Regulation No 11/2014 Coll.

[112] Act No 293/2017 Coll., amending Act No 168/1999 Coll., on liability insurance for damage caused by operation of vehicle and on amendments to some related acts (the Motor Third-Party Liability Insurance Act), and Act No 586/1992 Coll., on income tax, as amended.

[113] Judgment of the Court of Justice of the European Union in Cases C-162/13 Damijan Vnuk v Zavarovalnica Triglav d.d.

[114] Decree No 417/2017 Coll., amending Decree of the Ministry of Finance No 205/1999 Coll., implementing Act No 168/1999 Coll., on liability insurance for damage caused by operation of vehicle and on amendments to some related acts (the Motor Third-Party Liability Insurance Act), as amended.

[115] Act No 452/2016 Coll., amending Act No 284/2009 Coll., on Payments, as amended, and some related Acts.

[116] Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

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

[118] Act No 370/2017 Coll. on Payments.

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

alternative to card payment, and provide more guarantees that the payment will actually be made compared to bank transfer of funds. Consumers also have the option to centrally manage their payment accounts over the Internet, allowing them to have a better clarity of family finances. It also introduces higher payment security standards through so-called strong user authentication, and strengthens consumer rights in the event of loss, theft or misuse of payment cards. Consumers now do not have to pay a card payment fee that used to be charged at some petrol stations or in online air ticket sales.

Foreign Exchange
In 2017 an amendment to the Act on Currency Exchange was prepared[120]; on 27 April 2017 consultation materials were published on the MoF website. In the period from 23 February 2018 to 23 March 2018, an inter-ministerial consultation on the draft bill amending the Act on Currency Exchange and the new Act on Payments was held. In April 2018 the draft was sent for discussion to the working committees of the Government Legislative Council. The reason for the draft bill is to respond to the unfair practices of some foreign currency exchangers when dealing with foreign tourists. Furthermore, the boundary between the operation of currency exchange and the provision of providing payment services should be defined.

9.5 Non-Legislative Financial Market Activities of the MoF

Financial Education
According to the government's National Financial Education Strategy, the MoF is responsible for this area. The MoF heads the Working Group on Financial Education (WGFE), which provides a platform for the exchange of the experience and opinions. The WGFE members include representatives from the public sector (the MoF, the MoE, other ministries and the CNB), representatives of professional associations operating in the financial market, entities that implement financial education projects (NGOs, consumer associations, debt advisory entities), representatives from the academic sector, and education professionals. The MoF sets up ad hoc WGFE subgroups to address specific tasks; in 2017, these tasks involved the updating of financial literacy standards and new financial literacy definition.

National Strategy for Financial Education
The MoF is currently revising the National Strategy for Financial Education and related strategic documents. The revision process includes the identification of the level of financial literacy among the adult population and the evaluation of the results. During the years 2016 and 2017, the Working Subgroup for Competencies composed of WGFE members and other invited experts revised the 2007 financial literacy standards. A new financial literacy standard[121] setting the target competencies of pupils in the world of finance serves as a basis for the creation of framework education programmes at primary and secondary schools. This subgroup also helped in 2017 to create an updated definition of financial literacy.[122]

A public consultation on the revision of the National Financial Education Strategy was also held in 2017. Based on the responses to the consultation, the first draft of the revised National Financial Education Strategy was published. Following a public consultation on this proposal, further negotiations with relevant stakeholders will be held in 2018 to determine the direction of increasing financial literacy in the upcoming period.

The "Why to get financially educated?" portal
MoF continuously administers an internet portal for financial literacy entitled "Why to get financially educated?", www.psfv.cz, which is designed for both the professional as well as the general public. The portal provides a single point for accessing information about the functioning and risks of the financial market, and about the system of financial education in the Czech Republic and abroad. The content includes family finance, including the creation of family budget; structure, institutions and products of the financial market; contact details of consumer and debt counseling services that provide free assistance in the event of disputes with financial market institutions or, for example, in a difficult life situation; dispute resolution, advice and instructions focused primarily on over-indebtedness, debt relief and execution, and links to interesting sites with projects, games and calculators in the Czech Republic and abroad.

[120] Act No 277/2013 Coll., on Currency Exchange, as amended by Act No 183/2017 Coll.
[122] Financial literacy is a set of knowledge, skills and attitudes necessary to achieve financial prosperity through responsible financial decision-making.
[122] Financial literacy is a set of knowledge, skills and attitudes necessary to achieve financial prosperity through responsible financial decision-making.

Consumer Protection on the Financial Market

The offer of financial services is constantly growing, financial products are being innovated and becoming more complex, and not everyone is able to understand them. Consumer protection, as a comprehensive set of consumer rights, on the one hand, and the obligations of financial service distributors, on the other hand, should address this assymetry of knowledge and skills needed to make the right decisions with the appropriate tools. The basic principles and starting points followed by the Ministry of Finance as the competent State administration authority in this area stem from the MoF's Framework Policy on Consumer Protection on the Financial Market (published in 2007).

A review of this strategic document was launched in 2017 to assess the development of consumer protection in the financial market in the last decade, to identify persistent or new problems in retail financial services, and to update the MoF's position on possible legislative and non-legislative activities in this area.

The Concept of Capital Market Development in the Czech Republic

In October 2017, the MoF published a WB report on the capital market in the Czech Republic. The report was prepared at the request of the MoF and its preparation was financed by the Commission as part of the preparatory phase of the Structural Reform Support Programme[123]). The WB report prepared by experts from various countries around the world, with the assistance of the MoF and market participants, analyzes the conditions and specificities of the capital market in the Czech Republic, describes the current state of the capital market in the Czech Republic and formulates recommendations for its further development in the following period. The MoF plans to take into account the recommendations of this report in the forthcoming strategic document "Strategy of the Capital Market Development in the Czech Republic 2018–2023". This document will be finalized in 2018, also in cooperation with the WB within the SRSP project, and then submitted for approval to the Government of the Czech Republic. For more information see Box 6.1 in Chapter 6.

Translation of some laws into English

In 2017, some legal regulations from the financial market were indicatively translated into English. This includes a translation of the Recovery and Resolution Act (published in September 2017), the Capital Market Business Act, Act on Restriction of Cash Payments , Act on Payments (published in January 2018), and the Act on Currency Exchange (published in February 2018). The translations of laws are available on the MoF's website under Legislation and Legislative Documents.[124]

[123] Regulation (EU) 2017/825 of the European Parliament and of the Council of 17 May 2017 on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013.

[124] Viz. https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2013/zakon-c-277-2013-sb-31253
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2018/zakon-c-370-2017-sb-30664,
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2004/zakon-c-254-2004-sb-3569,
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2004/zakon-c-256-2004-sb-3568,
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2015/zakon-c-374-2015-sb-29512.

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LIST OF ACRONYMS AND ABBREVIATIONS

Abs.	absolute
AHWP	Ad Hoc Working Party on the Strengthening of the Banking Union
AKAT	Capital Market Association
APA	Approved Publication Arrangement
APRC	Annual Percentage Rate of Charge
APS CR	Association of Pension Management Companies of the Czech Republic
ARAD	Czech National Bank´s time series database
ARM	Approved Reporting Mechanism
bp	basis point
BoJ	Bank of Japan
BoE	Bank of England
BMR	Benchmarks Regulation
BRRD	Bank Recovery and Resolution Directive
CBR	Central Bank of the Russian Federation
CCP	Central Counterparty Clearing House
CCPRR	Central Counterparties Recovery and Resolution Proposal
CEGBPI	Commission Expert Group on Banking, Payments and Insurance
CETA	Comprehensive Economic and Trade Agreement
CFM	Committee for Financial Markets OECD
CIA	Czech Insurance Association
CRF	Crisis Resolution Fund
CMU	Capital Markets Union
CNY	Chinese renminbi - International currency code
COREPER	Comité des Représentants Permanents
CP	commercial paper
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSDR	Central Securities Depositories Regulation
CSMAD	Directive on Criminal Sanctions for Market Abuse
CTP	Consolidated Tape Provider
CNB	Czech National Bank
CZK	Czech koruna (crown) – International currency code
CZSO	Czech Statistical Office
ČSOB	Československá obchodní banka, a.s.
D03	Working group for Financial Services
DG FISMA	The Directorate-General for Financial Stability, Financial Services and Capital Markets Union
DIF	Deposit Insurance Fund
EBA	European Banking Authority
EBC	European Banking Committee
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECON	Committee on Economic and Monetary Affairs
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EFC	Economic and Financial Committee
EFTA	European Free Trade Association
EGESC	Expert Group of the European Securities Committee
EGNPL	Expert Group on Non-performing loans
EIOPA	European Insurance and Occupational Pensions Authority

EIOPC	European Insurance and Occupational Pensions Committee
ELTIF	European Long Term Investment Funds
EMF	European Monetary Fund
EMIR	European Market Infrastructure Regulation
EMU	Economic and Monetary Union
ESAs	European supervisory authorities
ESC	European Securities Committee
ESCB	European System of Central Banks
ESFS	European System European System of Financial Supervision
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro – International currency code
EuSEF	European Social Entrepreneurship Funds Regulation
EuVECA	European Venture Capital Funds Regulation
FA	Financial Arbitrator
Fed	Federal Reserve System (Central Bank of the USA)
FSB	Financial Stability Board
FMGS	Financial Market Guarantee System
FSC	Financial Services Committee
G20	Group of the world´s biggest economies represented by finance ministers and central bank governors
GDP	Gross Domestic Product
GFIF	Guarantee Fund of Investment Firms
GBP	British pound – International currency code
HUF	Hungarian forint – International currency code
IDD	The Insurance Distribution Directive
IFS	Investment Firms Supervision
INFE	International Network on Financial Education
IPPC	Insurance and Private Pensions Committee
JPY	Japanese yen – International currency code
KB	Komerční banka, a.s.
LTV	loan-to-value
MAR	Market Abuse Regulation
MF	Ministry of Finance
MiFID	Markets in Financial Instruments Directive
MiFIR	Regulation on Markets in Financial Instruments
MEYS	Ministry of Education, Youth and Sports
ML	mortgage loan
MLSA	Ministry of Labour and Social Affairs
MMF	Money Market Fund
MNB	Magyar Nemzeti Bank (Central Bank of Hungary)
n/a	not available
No	number
NBP	National Bank of Poland
NN	Nationale Nederlanden
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OTC	over-the-counter
OTF	Organised Trading Facility
p.a.	per annum

pp	percentage point
PF	participating fund
PI	private individual
PBC	Central Bank of China
PEPP	Pan-European Personal Pension Products
PLN	Polish zloty – International currency code
PRIBOR	Prague InterBank Offered Rate
PRIIPs	Packaged Retail and Insurance-based Investment Products Regulation
PSE	Prague Stock Exchange
PSD II	Payment Service Directive
PX	Primary PSE index
PXE	Power Exchange Central Europe
PX-GLOB	PSE index with wide base
PX-TR	Total Return Index PSE
RMS	RM-System
RRM	Risk Reduction Measures
RUB	Russian ruble – International currency code
SC	state contribution
SFTR	Securities Financing Transactions Regulation
SMEs	Small and Medium Enterprises
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRMR	Single Resolution Mechanism Regulation
SRSP	Structural Reform Support Programme
SSM	Single Supervisory Mechanism
STS	Simple, Transparent and Standardised Securitization
TF	transformed fund
TLAC	Total Loss-Absorbing Capacity
TREA	Total Risk Exposure Amount
USA	United States of America
USD	United States dollar – International currency code
WB	World Bank
WGFE	Working group on Financial Education
WPPP	Working Party on Private Pensions

APPENDIX 1: FINANCIAL MARKET LEGISLATION

The following changes were made to the financial market legislation of the Czech Republic and of European Union in 2017 (the content of Appendix 1 reflects the state as of 30 April 2018):

A1.1. Cross-Sectoral Financial Market Regulations

1) European legislation and other initiatives published in 2017:

- Regulation (EU) 2017/2394 of the European Parliament and of the Council of 12 December 2017 on cooperation between national authorities responsible for the enforcement of consumer protection laws and repealing Regulation (EC) No 2006/2004 ((in effect as of 17 January 2020);
- Commission Delegated Regulation (EU) 2017/867 of 7 February 2017 on classes of arrangements to be protected in a partial property transfer under Article 76 of Directive 2014/59/EU of the European Parliament and of the Council;
- Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy.

2) Pending European legislation (including legislation published after 31 December 2017) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 20 September 2017 Amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority); Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority); Regulation (EU) No 345/2013 on European venture capital funds; Regulation (EU) No 346/2013 on European social entrepreneurship funds; Regulation (EU) No 600/2014 on markets in financial instruments; Regulation (EU) 2015/760 on European long-term investment funds; Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; and Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market;
- Proposal for a Regulation of the European Parliament and of the Council of 20 September 2017 amending Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board;
- Commission Delegated Regulation (EU) 2018/344 of 14 November 2017 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodologies for valuation of difference in treatment in resolution;
- Commission Delegated Regulation (EU) 2018/345 of 14 November 2017 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for assessing the value of assets and liabilities of institutions or entities;
- Commission Implementing Regulation (EU) 2018/308 of 1 March 2018 laying down implementing technical standards for Directive 2014/59/EU of the European Parliament and of the Council with regard to formats, templates and definitions for the identification and transmission of information by resolution authorities for the purposes of informing the European Banking Authority of the minimum requirement for own funds and eligible liabilities;
- Proposal for a Directive of the European Parliament and of the Council of 20 September 2017 amending Directive 2014/65/EU on markets in financial instruments and Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Proposal for a Directive of the European Parliament and of the Council of 23 November 2016 amending Directive 2014/59/EU on loss-absorbing and recapitalisation capacity of credit institutions and investment firms and amending Directive 98/26/EC, Directive 2002/47/EC, Directive 2012/30/EU, Directive 2011/35/EU, Directive 2005/56/EC, Directive 2004/25/EC and Directive 2007/36/EC.

3) Acts that took effect in 2017:

- none

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2017):

- Draft Bill amending Act No 374/2015 Coll., on recovery and resolution in the financial market, as amended by Act No 183/2017 Coll., and other related acts.

5) Secondary legislation:

- none

A1.2. Capital Market Legislation

1) European legislation and other initiatives published in 2017:

- Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC;
- Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds;
- Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds;
- Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012;
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU 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;
- Commission Delegated Regulation (EU) 2017/566 of 18 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards for the ratio of unexecuted orders to transactions in order to prevent disorderly trading conditions;
- Commission Delegated Regulation (EU) 2017/567 of 18 May 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to definitions, transparency, portfolio compression and supervisory measures on product intervention and positions;
- Commission Delegated Regulation (EU) 2017/568 of 24 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the admission of financial instruments to trading on regulated markets;
- Commission Delegated Regulation (EU) 2017/569 of 24 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the suspension and removal of financial instruments from trading;
- Commission Delegated Regulation (EU) 2017/570 of 26 May 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards for the determination of a material market in terms of liquidity in relation to notifications of a temporary halt in trading;
- Commission Delegated Regulation (EU) 2017/571 of 2 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the authorisation, organisational requirements and the publication of transactions for data reporting services providers;
- Commission Delegated Regulation (EU) 2017/573 of 6 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on requirements to ensure fair and non-discriminatory co-location services and fee structures;
- Commission Delegated Regulation (EU) 2017/574 of 7 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the level of accuracy of business clocks;
- Commission Delegated Regulation (EU) 2017/575 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to

regulatory technical standards concerning the data to be published by execution venues on the quality of execution of transactions;

- Commission Delegated Regulation (EU) 2017/576 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution;
- Commission Delegated Regulation (EU) 2017/577 of 13 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on the volume cap mechanism and the provision of information for the purposes of transparency and other calculations;
- Commission Delegated Regulation (EU) 2017/578 of 13 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards specifying the requirements on market making agreements and schemes;
- Commission Delegated Regulation (EU) 2017/579 of 13 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on the direct, substantial and foreseeable effect of derivative contracts within the Union and the prevention of the evasion of rules and obligations;
- Commission Delegated Regulation (EU) 2017/580 of 24 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the maintenance of relevant data relating to orders in financial instruments;
- Commission Delegated Regulation (EU) 2017/582 of 29 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards specifying the obligation to clear derivatives traded on regulated markets and timing of acceptance for clearing;
- Commission Delegated Regulation (EU) 2017/1018 of 29 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards specifying information to be notified by investment firms, market operators and credit institutions;
- Commission Delegated Regulation (EU) 2017/583 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives;
- Commission Delegated Regulation (EU) 2017/584 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying organisational requirements of trading venues;
- Commission Delegated Regulation (EU) 2017/585 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the data standards and formats for financial instrument reference data and technical measures in relation to arrangements to be made by the European Securities and Markets Authority and competent authorities;
- Commission Delegated Regulation (EU) 2017/586 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the exchange of information between competent authorities when cooperating in supervisory activities, on-the-spot verifications and investigations;
- Commission Delegated Regulation (EU) 2017/588 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the tick size regime for shares, depositary receipts and exchange-traded funds;
- Commission Delegated Regulation (EU) 2017/1943 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on information and requirements for the authorisation of investment firms;
- Commission Delegated Regulation (EU) 2017/589 of 19 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading;

- Commission Delegated Regulation (EU) 2017/590 of 28 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the reporting of transactions to competent authorities;
- Commission Delegated Regulation (EU) 2017/591 of 1 December 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the application of position limits to commodity derivatives;
- Commission Delegated Regulation (EU) 2017/592 of 1 December 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the criteria to establish when an activity is considered to be ancillary to the main business;
- Commission Delegated Regulation (EU) 2017/610 of 20 December 2016 amending Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards the extension of the transitional periods related to pension scheme arrangements;
- Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents;
- Commission Delegated Regulation (EU) 2017/1799 of 12 June 2017 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council as regards the exemption of certain third countries central banks in their performance of monetary, foreign exchange and financial stability policies from pre- and post-trade transparency requirements;
- Commission Delegated Regulation (EU) 2017/1946 of 11 July 2017 supplementing Directives 2004/39/EC and 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for an exhaustive list of information to be included by proposed acquirers in the notification of a proposed acquisition of a qualifying holding in an investment firm;
- Commission Delegated Regulation (EU) 2017/2188 of 11 August 2017 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards the waiver on own funds requirements for certain covered bonds;
- Commission Delegated Regulation (EU) 2017/2194 of 14 August 2017 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to package orders;
- Commission Delegated Regulation (EU) 2017/2154 of 22 September 2017 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to regulatory technical standards on indirect clearing arrangements;
- Commission Implementing Regulation (EU) 2017/953 of 6 June 2017 laying down implementing technical standards with regard to the format and the timing of position reports by investment firms and market operators of trading venues pursuant to Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments;
- Commission Implementing Regulation (EU) 2017/988 of 6 June 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for cooperation arrangements in respect of a trading venue whose operations are of substantial importance in a host Member State;
- Commission Implementing Regulation (EU) 2017/980 of 7 June 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for cooperation in supervisory activities, for on-site verifications, and investigations and exchange of information between competent authorities in accordance with Directive 2014/65/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/981 of 7 June 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for the consultation of other competent authorities prior to granting an authorisation in accordance with Directive 2014/65/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/1944 of 13 June 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for the consultation process between relevant competent authorities in relation to the notification of a proposed acquisition of a qualifying holding in an investment firm in accordance with Directives 2004/39/EC and 2014/65/EU of the European Parliament and of the Council;

- Commission Implementing Regulation (EU) 2017/1005 of 15 June 2017 laying down implementing technical standards with regard to the format and timing of the communications and the publication of the suspension and removal of financial instruments pursuant to Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments;
- Commission Implementing Regulation (EU) 2017/1945 of 19 June 2017 laying down implementing technical standards with regard to notifications by and to applicant and authorised investment firms according to Directive 2014/65/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/1093 of 20 June 2017 laying down implementing technical standards with regard to the format of position reports by investment firms and market operators;
- Commission Implementing Regulation (EU) 2017/1110 of 22 June 2017 laying down implementing technical standards with regard to the standard forms, templates and procedures for the authorisation of data reporting services providers and related notifications pursuant to Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments;
- Commission Implementing Regulation (EU) 2017/1111 of 22 June 2017 laying down implementing technical standards with regard to procedures and forms for submitting information on sanctions and measures in accordance with Directive 2014/65/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/1158 of 29 June 2017 laying down implementing technical standards with regards to the procedures and forms for competent authorities exchanging information with the European Securities Market Authority as referred to in Article 33 of Regulation (EU) No 596/2014 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/2382 of 14 December 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for the transmission of information in accordance with Directive 2014/65/EU of the European Parliament and of the Council;
- Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits;
- Commission Implementing Decision (EU) 2017/2238 of 5 December 2017 on the equivalence of the legal and supervisory framework applicable to designated contract markets and swap execution facilities in the United States of America in accordance with Regulation (EU) No 600/2014 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2017/1857 of 13 October 2017 on the recognition of the legal, supervisory and enforcement arrangements of the United States of America for derivatives transactions supervised by the Commodity Futures Trading Commission as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories;
- Commission Implementing Decision (EU) 2017/2318 of 13 December 2017 on the equivalence of the legal and supervisory framework in Australia applicable to financial markets in accordance with Directive 2014/65/EU of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2017/2319 of 13 December 2017 on the equivalence of the legal and supervisory framework applicable to recognised exchange companies in Hong Kong Special Administrative Region in accordance with Directive 2014/65/EU of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2017/2320 of 13 December 2017 on the equivalence of the legal and supervisory framework of the United States of America for national securities exchanges and alternative trading systems in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2017) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 20 December 2017 on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010;

- Proposal for a Regulation of the European Parliament and of the Council of 12 March 2018 on facilitating cross-border distribution of collective investment funds and amending Regulations (EU) No 345/2013 and (EU) No 346/2013;
- Proposal for a Regulation of the European Parliament and of the Council of 12 March 2018 on amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds;
- Proposal for a Directive of the European Parliament and of the Council of 20 December 2017 on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU;
- Proposal for a Directive of the European Parliament and of the Council of 12 March 2018 amending Directive 2009/65/EC of the European Parliament and of the Council and Directive 2011/61/EU of the European Parliament and of the Council with regard to cross-border distribution of collective investment funds;
- Proposal for a Directive of the European Parliament and of the Council of 12 March 2018 on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU.

3) Acts that took effect in 2017:

- Act No 204/2017 Coll., amending Act No 256/2004 Coll., on Capital Market Business, as amended, and other related acts (in effect as of 13 August 2017 and 3 January 2018).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2017):

- Draft Bill amending Act No 190/2004 Coll., on Bonds, as amended, and other related acts (expected to take effect on 1 January 2019);
- Draft Bill amending Act No 256/2004 Coll., on Capital Market Business, as amended.

5) Secondary legislation:

- Decree No 424/2017 Coll., on reporting duties of some entities operating on the capital market (in effect as of 3 January 2018);
- Decree No 319/2017 Coll., on professional qualification for distribution on the capital market (in effect as of 3 January 2018);
- Decree No 309/2017 Coll., on applications and notifications under the Capital Market Business Act (in effect as of 3 January 2018);
- Decree No 308/2017 Coll., on the more detailed regulation of certain rules in the provision of investment services (in effect as of 3 January 2018);
- Government regulation No 133/2017 Coll., amending Government regulation No 243/2013 Coll., on investing of investment funds and techniques for their management, as amended by Government regulation No 11/2014 Coll. (in effect as of 1 June 2017).

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

1) European legislation and other initiatives published in 2017:

- Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State;
- Regulation (EU) 2017/2401 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms;
- Commission Delegated Regulation (EU) 2017/747 of 17 December 2015 supplementing Regulation (EU) No 806/2014 of the European Parliament and the Council with regard to the criteria relating to the calculation of ex ante contributions, and on the circumstances and conditions under which the payment of extraordinary ex post contributions may be partially or entirely deferred;
- Commission Delegated Regulation (EU) 2017/1230 of 31 May 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards further specifying the additional objective criteria for the application of a preferential liquidity outflow or inflow rate for cross-border undrawn credit or liquidity facilities within a group or an institutional protection scheme;

- Commission Delegated Regulation (EU) 2017/2188 of 11 August 2017 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards the waiver on own funds requirements for certain covered bonds;
- Commission Delegated Regulation (EU) 2017/2295 of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets;
- Commission Delegated Regulation (EU) 2017/2361 of 14 September 2017 on the final system of contributions to the administrative expenditures of the Single Resolution Board;
- Commission Implementing Regulation (EU) 2017/461 of 16 March 2017 laying down implementing technical standards with regard to common procedures, forms and templates for the consultation process between the relevant competent authorities for proposed acquisitions of qualifying holdings in credit institutions as referred to in Article 24 of Directive 2013/36/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/954 of 6 June 2017 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/1443 of 29 June 2017 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regards to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/1486 of 10 July 2017 amending Implementing Regulation (EU) 2016/2070 as regards benchmarking portfolios and reporting instructions;
- Commission Implementing Regulation (EU) 2017/2114 of 9 November 2017 amending Implementing Regulation (EU) No 680/2014 as regards templates and instructions;
- Commission Implementing Regulation (EU) 2017/2241 of 6 December 2017 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2017) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 23 November 2016 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012;
- Proposal for a Regulation of the European Parliament and of the Council of 26 November 2015 amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme;
- Proposal for a Regulation of the European Parliament and of the Council of 23 November 2016 amending Regulation (EU) No 806/2014 as regards loss-absorbing and Recapitalisation Capacity for credit institutions and investment firms;
- Proposal for a Regulation of the European Parliament and of the Council of 14 March 2018 on amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures;
- Commission delegated regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due;
- Commission Delegated Regulation (EU) 2018/405 of 21 November 2017 correcting certain language versions of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;
- Commission delegated regulation (EU) No 2018/728 of 24 January 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for procedures for excluding transactions with non-financial counterparties established in a third country from the own funds requirement for credit valuation adjustment risk;

- Proposal for a directive of the European Parliament and of the Council of 23 November 2016 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

3) Acts that took effect in 2017:

- Act No 461/2016 Coll., amending Act No 96/1993 Coll., on Building Savings Schemes and State Contribution of Building Savings Schemes and amending Act of the Czech National Council No 586/1992 Coll., on Income Taxes, as amended by Act of the Czech National Council No 35/1993 Coll. (in effect as of 1 February 2017).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2017):

- Draft Bill amending Act No 6/1993 Coll., on the Czech National Bank, as amended, and amending Act No 136/2011 Coll., on the Circulation of Banknotes and Coins and on the amendment of Act No 6/1993 Coll., on the Czech National Bank, as amended, as amended and revoking Act No 76/1976 Coll., on Mintage of the Czechoslovak Ducat (expected to take effect in June 2018);
- Draft Bill amending Act No 6/1993 Coll., on the Czech National Bank, as amended (expected to take effect in September 2019);
- Draft Bill amending Act No 21/1992 Coll., on Banks, as amended, and amending Act No 87/1995 Coll., on Savings and Credit Unions and other related measures and supplementing Act of the Czech National Council No 586/1992 Coll., on Income Taxes, as amended, as amended (expected to take effect in September 2019).

5) Secondary legislation:

- Decree No 431/2016 amending Decree No 71/2011 Coll., on form, structure and methods of keeping and administering of data which have to be kept by a bank or a foreign bank´s branch and provided by these entities to the Deposit Insurance Fund (in effect as of 1 January 2017);
- Decree No 164/2017 implementing certain provisions of Act No 96/1993 Coll., on Building Savings Schemes and State Contribution of Building Savings Schemes, as amended (in effect as of 1 June 2017).

A1.4. Payment Services and Market Infrastructure Legislation

1) European legislation and other initiatives published in 2017:

- Commission Delegated Regulation (EU) 2017/323 of 20 January 2017 correcting Delegated Regulation (EU) 2016/2251 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty;
- Commission Delegated Regulation (EU) 2017/979 of 2 March 2017 amending Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to the list of exempted entities;
- Commission Delegated Regulation (EU) 2017/751 of 16 March 2017 amending Delegated Regulations (EU) 2015/2205, (EU) 2016/592 and (EU) 2016/1178 as regards the deadline for compliance with clearing obligations for certain counterparties dealing with OTC derivatives;
- Commission Delegated Regulation (EU) 2017/2055 of 23 June 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for the cooperation and exchange of information between competent authorities relating to the exercise of the right of establishment and the freedom to provide services of payment institutions;
- Commission Delegated Regulation (EU) 2017/1800 of 29 June 2017 amending Delegated Regulation (EU) No 151/2013 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Delegated Regulation (EU) 2017/2155 of 22 September 2017 amending Delegated Regulation (EU) No 149/2013 with regard to regulatory technical standards on indirect clearing arrangements;

- Commission Implementing Regulation (EU) 2017/954 of 6 June 2017 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council;
- Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement;
- Commission Implementing Decision (EU) 2017/1857 of 13 October 2017 on the recognition of the legal, supervisory and enforcement arrangements of the United States of America for derivatives transactions supervised by the Commodity Futures Trading Commission as equivalent to certain requirements of Article 11 of Regulation (EU) No 648/2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories.

2) **Pending European legislation (including legislation published after 31 December 2017) and other initiatives of the European Commission:**
    - Proposal for a Regulation of the European Parliament and of the Council of 28 November 2016 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365;
    - Proposal for a Regulation of the European Parliament and of the Council of 4 May 2017 amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories;
    - Proposal for a Regulation of the European Parliament and of the Council of 14 June 2017 amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs;
    - Proposal for a Regulation of the European Parliament and of the Council of 8 March 2018 on European Crowdfunding Service Providers (ECSP) for Business;
    - Proposal for a Regulation of the European Parliament and of the Council of 28 March 2018 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges;
    - Commission Delegated Regulation (EU) 2018/32 of 28 September 2017 supplementing Directive 2014/92/EU of the European Parliament and of the Council with regard to regulatory technical standards for the Union standardised terminology for most representative services linked to a payment account;
    - Commission Delegated Regulation (EU) 2018/72 of 4 October 2017 supplementing Regulation (EU) 2015/751 of the European Parliament and of the Council on interchange fees for card-based payment transactions with regard to regulatory technical standards establishing the requirements to be complied with by payment card schemes and processing entities to ensure the application of independence requirements in terms of accounting, organisation and decision-making process;
    - Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication;
    - Commission Implementing Regulation (EU) 2018/33 of 28 September 2017 laying down implementing technical standards with regard to the standardised presentation format of the statement of fees and its common symbol according to Directive 2014/92/EU of the European Parliament and of the Council;
    - Commission Implementing Regulation (EU) 2018/34 of 28 September 2017 laying down implementing technical standards with regard to the standardised presentation format of the fee information document and its common symbol according to Directive 2014/92/EU of the European Parliament and of the Council;
    - Amendment of the Proposal for a Regulation of 13 June 2017 amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs;

- Proposal for a Directive of the European Parliament and of the Council of 14 March 2018 on credit servicers, credit purchasers and the recovery of collateral.

3) Acts that took effect in 2017:

- Act No 452/2016 Coll., amending Act No 284/2009 Coll., on Payments, as amended, and other related acts (to take partially effect on 13 January 2017, the rest on 1 March 2017).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2017):

- Act No 370/2017 Coll., on Payments (in effect as of 13 January 2018);
- Act No 371/2017 Coll. amending some acts in relation to the adoption of the Act on Payments (in effect as of 13 January 2018);
- Draft Bill amending Act No 277/2013 Coll., on Currency Exchange as amended by Act No 183/2017 Coll., and Act No 370/2017 Coll., on Payments (expected to take effect in May 2019).

5) Secondary legislation:

- Regulation No 454/2017 Coll., on Information Obligations of some persons authorised to provide payment services and issue electronic money (in effect as of 13 January 2018);
- Regulation No 1/2018 Coll., on Applications and Notifications on the Performance of Activities under Act on Payments (in effect as of 13 January 2018);
- Regulation No 7/2018 Coll., on the Performance of some Activities according to Act on Payments for Payment Institutions, Payment Account Information Service, Small-Scale Payment Service Providers, Electronic Money Institutions and Small-Scale Electronic Money Issuers (in effect as of 13 January 2018);
- Regulation No 14/2018 Coll., on Payment Systems with Settlement Finality (in effect as of 1 February 2018).

A1.5. Insurance and Private Pension Systems Legislation

1) European legislation and other initiatives published in 2017:

- Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012;
- Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors;
- Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products;
- Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates);
- Commission Implementing Regulation (EU) 2017/1469 of 11 August 2017 laying down a standardised presentation format for the insurance product information document;
- Commission Implementing Regulation (EU) 2017/2015 of 9 November 2017 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2017 until 30 December 2017 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Commission Implementing Regulation (EU) 2017/2189 of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2450 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2017/2190 of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2452 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report according to Directive 2009/138/EC of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2017) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 29 June 2017 on a pan-European Personal Pension Product (PEPP);
- Proposal for a Commission Delegated Regulation (EU) of 20 December amending Delegated Regulation (EU) 2017/2358 and Delegated Regulation (EU) 2017/2359 as regards the date of its application;
- Commission Implementing Regulation (EU) 2018/165 of 31 January 2018 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 December 2017 until 30 March 2018 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Draft amendment to Commission Delegated Regulation 2015/35 of 17 April 2018 as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings.

3) Acts that took effect in 2017:

- none

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2017):

- Act No 293/2017 Coll., amending Act No 168/1999 Coll., on liability insurance for damage caused by operation of vehicle and other related acts (the Motor Third-Party Liability Insurance Act), and Act No 586/1992 Coll., on income taxes, as amended (in effect as of 1 January 2018);
- Draft Bill on Insurance and Reinsurance Distribution;
- Draft Bill amending some acts in relation to the adoption of the Act on Insurance and Reinsurance Distribution;
- Draft Bill amending Act No 340/2006 Coll., on activities of institutions for occupational retirement provision, as amended.

5) Secondary legislation:

- Decree No 417/2017 Coll., amending Decree of the Ministry of Finance No 205/1999 Coll., implementing Act No 168/1999 Coll., on liability insurance for damage caused by operation of vehicle and on amendments to some related acts (the Motor Third-Party Liability Insurance Act), as amended (in effect as of 1 January 2018).

APPENDIX 2: SUPPLEMENTARY TABLES

Table A2.1: Loans by type

As at 31 Dec (CZK bn)	2012	2013	2014	2015	2016	2017	Year-on-year change	
							Abs.	(%)
Overdrafts and debit balances of current accounts	142.9	143.6	148.2	150.9	156.5	174,7	18.2	11.7
Consumer loans (excl. overdrafts and debit balances of current accounts)	185.3	187.0	186.3	202.6	213.9	224.5	10.7	5.0
Loans for residential property purchase excl. mortgage loans for residential property	138.6	132.2	127.1	126.9	128.8	132.4	3.6	2.8
Mortgage loans for residential property	747.6	789.5	844.3	911.6	992.7	1,082.8	90.1	9.1
Mortgage loans for non-residential property	116.6	120.2	120.7	117.9	107.5	99.0	-8.5	-7.9
Other loans	415.8	514.7	545.2	544.4	556.2	540.9	-15.3	-2.7
Investment loans	577.5	585.4	619.6	697.2	765.2	804.0	38.7	5.1
Bridge loans	2.7	2.6	2.5	0.5	0.5	1.0	0.5	95.6
Trade receivables	33.0	39.1	41.1	30.4	29.2	26.2	-3.0	-10.3
Total	2,514.3	2,514.3	2,634.9	2,782.4	2,950.4	3,085.5	135.1	4.6

Source: CNB–ARAD

Table A2.2: Main development indicators for the building savings banks sector in the Czech Republic

As at 31 Dec		2012	2013	2014	2015	2016	2017
New building savings contracts	number	433,093	449,588	481,439	373,096	403,259	370,707
	change (%)	5.5	3.8	7.1	-22.5	8.1	-8.1
Average target value for new building savings contracts with private individuals	value (CZK thousands)	366.1	370.8	336.0	371.1	383.9	396.5
	change (%)	5.7	1.3	-9.4	10.5	3.4	3.3
Building savings contracts in savings phase	number	4,316,999	4,066,684	3,825,367	3,503,349	3,312,077	3,212,427
	change (%)	-5.1	-5.8	-5.9	-8.4	-5.5	-3.0
Paid state contribution	value (CZK bn)	5.3	5.0	4.8	4.6	4.3	3.9
	change (%)	-50.7	-6.4	-3.9	-4.2	-6.2	-7.8
Average state contribution paid per building savings contract for the relevant year	value (CZK)	1,312.0	1,316.0	1,245.0	1,302.0	1,292.0	-
	change (%)	-0.9	0.3	2.2	4.6	-0.8	-
Savings	value (CZK bn)	435.0	429.1	413.6	384.2	362.6	358.9
	change (%)	0.4	-1.4	-3.6	-7.1	-5.6	-1.0
Loans in total	number	894,358	815,160	752,558	695,439	650,214	612,982
of which: building savings loans	number	521,312	471,441	425,508	380,873	339,809	307,668
bridging loans [125]	number	373,046	343,719	327,050	314,566	310,405	305,314
	change (%)	-6.5	-8.9	-7.7	-7.6	-6.5	-5.7
Loans in total	value (CZK bn)	282.2	261.4	249.6	242.7	240.6	245.7
of which: building savings loans	value (CZK bn)	55.7	51.7	48.0	43.9	40.0	38.2
bridging loans [125]	value (CZK bn)	226.5	209.7	201.6	198.7	200.6	207.5
	change (%)	-3.7	-7.4	-4.5	-2.8	-0.8	2.1
Loan–to-savings ratio	ratio (%)	64.9	60.9	60.4	63.2	66.4	68.5

Source: Building savings banks

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

Table A2.3: Allocation of pension funds' assets

As at 31 Dec (market prices, CZK bn)	2012	2013	2014	2015	2016	2017	Share 2017 (%)
Bonds	235.9	256.9	300.3	324.4	357.0	344.0	77.2
Treasury bills	6.8	0.9	1.7	4.7	0.0	0.7	0.2
Stocks	0.6	0.9	0.5	0.9	1.4	2.5	0.6
Unit certificates	3.1	3.8	5.0	6.5	8.8	9.6	2.1
Money and other assets	26.8	34.9	31.7	36.5	35.1	88.6	19.9
Total	273.2	297.4	339.2	373.1	402.3	445.5	100.0

Source: APS CR, CNB–ARAD

Table A2.4: Main development indicators for the supplementary pension insurance in transformed funds

As at 31 Dec		2012	2013	2014	2015	2016	2017
Supplementary pension insurance contracts[126]	number	5,134,862	4,886,675	4,585,149	4,281,621	3,999,304	3,709,605
	change (%)	12.5	-4.8	-6.2	-6.6	-6.6	-7.2
New supplementary pension insurance contracts	number	1,128,020	-	-	-	-	-
	change (%)	146.8	-	-	-	-	-
Supplementary pension insurance policies with employer's contribution	number	1,317,563	1,339,000	1,313,766	1,289,925	1,272,665	1,254,968
	change (%)	3.6	1.6	-1.9	-1.8	-1.3	-1.4
State contributions for a given period	value (CZK bn)	5.9	6.8	6.6	6.3	6.0	5.7
	change (%)	5.6	15.0	-3.3	-4.8	-4.7	-5.2
Participants' contributions[127]	value (CZK bn)	25.5	33.0	31.6	30.1	29.6	29.4
	change (%)	8.8	29.3	-4.3	-4.6	-1.5	-1.0
Average monthly state contribution	value (CZK)	108	117	119	122	124	120
	change (%)	2.5	8.2	2.1	2.5	1.6	-3.2
Average monthly participant's contribution	value (CZK)	465	568	574	589	606	624
	change (%)	5.3	22.2	1.1	2.6	2.9	3.0

Source: MoF

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

Table A2.5: Main development indicators for the supplementary pension savings in participating funds

As at 31 Dec		2013	2014	2015	2016	2017
Supplementary pension savings contracts[128]	number	76,669	217,985	361,395	536,759	757,549
	change (%)	-	184.3	65.8	48.5	41.1
New supplementary pension savings contracts	number	77,771	145 841	156,062	195,508	251,818
	change (%)	-	87.5	7.0	25.3	28.8
of which transfer from supplementary pension insurance[129]	number	1,284	14,221	12,959	17,705	41,671
Supplementary pension savings policies with employer contribution	number	13,461	40,719	72,358	111,137	167,842
	change (%)	-	202.5	77.7	53.6	51.0
State contributions for a given period	value (CZK bn)	0.062	0.270	0.539	0.857	1.237
	change (%)	-	335.5	99.6	59.0	44.3
Participants' contributions[130]	value (CZK bn)	0.342	1.341	2.573	4.072	6.072
	change (%)	-	292.1	91.9	58.3	49.1
Average monthly state contribution	value (CZK)	143	148	152	156	159
	change (%)	-	3.5	2.7	2.6	1.9
Average monthly participant's contribution	value (CZK)	749	722	722	741	776
	change (%)	-	-3.6	0.0	2.6	4.7

Source: MoF

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

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