

Building savings

in 2017



Association of Czech Building Savings Banks

Dear friends,

The era of low interest rates, where money had little or no and sometimes even a negative value, is finished. For the first time in years, loans have begun to get more expensive and the experts are trying to guess how high interest rates may rise.

In these circumstances, clients of savings banks have an advantage as they do not have to worry about rising interest rates because their exact rates are always set out in their contracts. No matter what happens in the market place, building savings clients always know exactly under what conditions they may borrow their funds. In times of increasing rates, building savings banks can truly demonstrate their advantages.

Loan transactions have been increasing over the last few years and, with the rise in interest

rates, the savings sector will also become more dynamic. The long term experience of our foreign colleagues has shown that building savings perform best during stable political and economic conditions, accompanied by a slight growth in interest rates. And these are exactly the type of conditions we currently have in the Czech Republic.

Buildings savings have had a great year and I believe that the next will even be a little better. And I wish the same for you all.



Jan Jeníček
Chairman of AČSS
President of the European
Federation of Building Societies

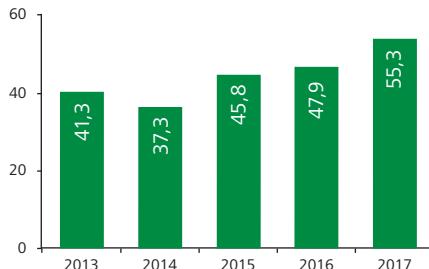


The value of loans provided has once again increased

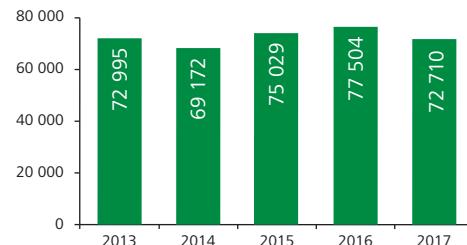
The public, with its actions, has reinforced what the research polls have indicated in previous years: that the axis of building savings loans has again shifted slightly towards loans and better living standards.

Even though interest rates have begun to rise, conditions for clients have been very favourable and demand has increased. In 2017, buildings savings banks lent out 72 710 loans in a total value of 55.3 billion CZK. Though in the last few years the number of loans issued has stagnated at around 70 000 annually, the total

Volume of loans provided (in CZK Billion)



Number of new loans



value of the average loan is constantly increasing.

The last time building savings banks lent out more than 50 billion CZK was in 2010, before the decrease of state support and towards the end of the global financial crisis. In 2017, the average value of loans increased by almost a quarter (by 143 000 CZK) to 760 969 CZK.

One of the reasons behind this trend is that people are using building savings more often to fund the purchase of their apartments or houses; 30% of all loans are for this purpose.

Though the 'refurbishment and modernization' of apartments and homes remains the largest portion of loans being taken out, in 2017 the percentage for this purpose was 35%.

The housing finance market was affected by the regulatory activities of the Czech National Bank (CNB). In short, the CNB has recommended that lending institutions issue loans only to clients who are not only capable of repaying their loans and can provide sufficient security, but who also have their own savings at their disposal.

It is now impossible to lend more than 90% of the property value and loans which finance 80% to 90% are limited to 15% of new clients within each quarter. The CNB evaluates the adherence of these recommendations by the financial institutions and, if required, specifies measures to rectify any shortcomings.

These recommendations can protect borrowers from overfinancing and can also limit negative impacts on the stability of the financial institutions and the whole banking sector as such. Nonetheless, there are two sides of the same coin and these restrictions have had a negative effect on financial results. This is the reason why the 15% increase in the value of loans lent out by savings banks is so valuable.

Building savings have the advantage that they use property as a guarantee only when it comes to higher amounts, usually when purchasing property. In other cases, it is possible to guarantee a loan to a certain level simply through a good savings history record, by proving an adequate income or providing a guarantor.

This is a good demonstration of the fact that this product with a long history is built on good foundations. Before a loan is approved by a savings bank, there is an automatic requirement for the client to have saved a certain percentage of the final amount required. This corresponds with the regulatory requirements for personal savings and buildings savings banks have demanded this requirement since their inception.

Without this, building savings banks would not be able set and guarantee the interest rates to be charged on loans at the beginning of the savings contracts, which is their main trump card in the loan marketplace, especially in times of increasing interest rates.

Nevertheless, it is quite easy to resolve a situation where a client is not entitled to a loan because of a short savings track history or because not enough funds have been saved as yet. In this case, a bridging loan can be taken out. This is a temporary solution and its conditions are subject to the current conditions on the financial markets. However,

each loan in time becomes a proper savings loan with all the benefits.

The advantages of savings banks loans become most apparent in times of rising interest rates. Perspective customers appreciate the possibility of being able to set a favourable fixed interest rate for the future when interest rates of other products are rising, sometimes by several percentage points.

Without savings there would be no loans

The buildings savings scheme is based on savings banks' ability to accumulate sufficient investor savings from which they can then issue loans which are not as susceptible to the financial markets trends to their clients. They can only guarantee stable conditions when there is a continual and regular inflow of saving deposits.

The system is based on a sufficient number of new contracts being signed, which the government encourages with state-subsidies. Currently, these subsidies are around 10% of the annual saved amount, however they are capped at 2 000 CZK. The state support not only increases investors' returns and motivates them to save with savings banks but, due to its structure, also guarantees that they save for the minimum required time which, in the Czech Republic, is 6 years.

In 2017, there were 426 446 contracts signed of which 55 739 were an increase in the targeted amount to be saved. A decrease of 10% over the previous year confirms the prior mentioned shift of clients' interest from savings towards loans.

Czech building savings banks at year's end had 3 212 427 savings contracts and 612 982 loans. Let us remind ourselves that the average loan was almost 761 000 CZK and the average savings are 112 000 CZK.

Balances of deposits and loan accounts (CZK billion)



If the savings inflow is not sufficient, this phenomenon is not a dire problem in the short or medium-term, especially if the system has a sufficient volume of savings as is the case currently. As the following graph indicates, there are sufficient resources for future loans.

Building savings banks must calculate and consider whether future client trends will allow them to satisfy the demand for loans and fulfil their purpose of existence. If, in the future, building savings institutions were to prove themselves incapable of securing sufficient resources, they would at

least need to restrict their offer of bridging loans and concentrate on issuing legislatively and contractually declared standard loans from building savings. This, however, is not the desirable path to take because where demand for loans exists the supply of these loans will always prevail.

The portion of loans over savings has risen to 68.5% in the last year, which is the highest percentage rate in building savings history in the Czech Republic. More than two thirds of savings have been used to finance better living standards through loans. This indicates an effectively functioning system and, at the same time, sufficient resources for future clients.

The question is whether in the future only loan transactions will increase. As we have already shown, current conditions indicate this outcome so far. However, if new contracts are being signed, the ratio between saving and loans should not increase so rapidly. In any case, building savings in the future should keep strengthening.

Summary of 2017



Loans have remained favourable even though interest rates in the market have slightly risen.

Buildings savings banks signed 72 710 new contracts for a total value of 55.3 billion CZK.

The average loan increased (by 143 000 CZK) to almost 761 000 CZK.

At year's end, building savings banks were overseeing 359 billion CZK of their clients' savings, which is 16% of all Czech household savings in the banking sector.

The number of new signed contracts in 2017 was 426 446 and the average amount of savings was almost 112 000 CZK.

There are enough resources for further lending and the system is lending effectively. At year's end, 68.5% of deposits had been lent out.

The effectiveness of state support is growing

Some critics of building savings claim that the funds are misused to finance holidays, cars and the like. This is a misconception as clients that solely save are just as important as the ones that take out loans. The key is to utilize state support of the scheme.

We can easily compare the total state subsidies to the total value of loans issued. This measures the effectiveness of the state subsidy.

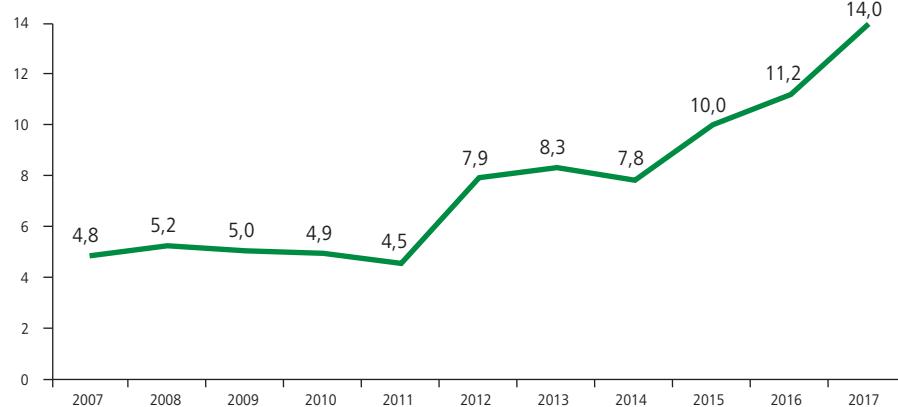
While 6 and 7 years ago, for every 1 CZK of subsidy there were about 5CZK of loans, in the following years this figure had risen to almost 8 CZK and last year the effectiveness had climbed to 14 CZK.

The primary reason for the strong rise in effectiveness is the strong increase in the values of loans issued (by 15.5%) accom-

Measure of the effectiveness of state subsidies

Year	2010	2011	2012	2013	2014	2015	2016	2017
Subsidies (CZK billion)	11,7	10,7	5,3	5,0	4,8	4,6	4,3	3,9
Loans (CZK billion)	57,8	48	41,7	41,3	37,3	45,8	47,9	55,3
Effectiveness	4,9	4,5	7,9	8,3	7,8	10	11,2	14

Effectiveness of state subsidies on loans



panied by an almost 8% decrease in overall payout of state subsidies.

can expect further growth of effectiveness in the future, though not as distinct.

If we are to assume a larger volume of loans and a marginal decrease in state subsidies, we



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www.wustenrot.cz



Association of Czech Building Savings Banks

Vodičkova 30
110 00 Praha 1
+420 224 422 093
tajemnik@acss.cz

WWW.ACSS.CZ

