

ANNUAL REPORT

for 2016



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I INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



The year 2016 has taken its place in the history of the domestic deposit insurance system not only as the twenty-second of its existence, but also as the first. The Deposit Insurance Fund, as we previously knew it, has entered a new era as part of the Financial Market Guarantee System. A change in name, internal structure and staffing, modified

rules for deposit insurance, and a new role as manager of resources of the Crisis Resolution Fund - all these were challenges met in the past year. And here in my introduction I can say, with conviction, that they have been extremely successfully accomplished.

Intensive preparations for the implementation of changes based on the new European directives on deposit guarantee schemes (the DGSD) and on the recovery and resolution of credit institutions and investment firms (the BRRD) were already under way in 2015, and did not let up in the following year. The key milestone was 1 January 2016, when the relevant Acts implementing the two mentioned European regulations into the national body of laws came into effect. For the Guarantee System, this meant the need to quickly implement a series of steps: from changing the name through the first meetings of the new bodies - the five-member Board of Directors and the three-member Management Board - to the revision of all internal regulations. A completely new website was also created, one that will provide in particular the widest public, meaning depositors, with all the information they need in a modern and comprehensible form.

The Guarantee System now manages not only resources of the Deposit Insurance Fund, but also those of the new Crisis Resolution Fund. This, in view of developments on the financial market and the shortening of deadlines for disbursements of compensation for insured deposits, required a restructuring of the portfolio. In this respect the key principles remain security and sufficient liquidity to guarantee the fulfilment of obligations within the deadlines determined by legislation. Even so, it proved possible to achieve positive appreciation of the allocated resources and thus to cover the operating expenses of the entire Guarantee System.

The DGSD Directive has brought about a series of changes and innovations, including closer cooperation between national systems. Here, an important role has been played by the European Forum of Deposit Insurers (EFDI) which, in cooperation with the European Banking Authority, prepared a solution for its members in the form of

a multilateral agreement on cooperation, *inter alia* in the field of cross-border deposit compensation. The Guarantee System, as manager of the domestic Deposit Insurance Fund, participated in its preparation and was one of the first signatories to join it. However, it remains in close contact with a number of partner systems and will discuss the details of any future cooperation.

One fundamental change was the shortening of the deadline to commence disbursement of compensation if a credit institution fails to seven business days, which entailed the need for practically immediate modifications to a series of internal processes. A test of the fulfilment of this task was not unfortunately long in coming - as early as in the autumn of 2016 the Czech National Bank withdrew the licence of ERB Bank, a. s., thereby triggering the seven-day countdown. However, the Guarantee System came through this test with flying colours and performed its commitments within the determined deadlines. Although the failure of this bank resulted in a commitment to disburse deposit compensation of CZK 3.6 billion, provisions remained above the minimum level required by the DGSD Directive. With the addition of CZK 2.1 billion through contributions collected in 2016, the Deposit Insurance Fund started 2017 with provisions of almost CZK 29 billion. Here it is important to add that the first contributions to the new Crisis Resolution Fund reached almost CZK 3 billion and have not yet needed to be used. Parallel to the activities closely connected with the transformation into the Guarantee System and the implementation of new rules, other projects were under way, building on the earlier audits in IT, security and risk management. As in the past, the majority of work was performed through internal resources, and 2016 again saw the full deployment of all the staff of the Guarantee System, including the hiring of two new specialists. At this point I would therefore like to thank Executive Director Renáta Kadlecová and all the staff for their high standard of work and their personal commitment. All the members of the Board of Directors also deserve our thanks after devoting so much time to the Guarantee System agenda when the workplaces were operating under full load, whether in the Czech National Bank, the Ministry of Finance, or in the private sector. The Financial Market Guarantee System had a successful 2016 - a year that saw the completion of a fundamental transformation, and demonstrated its readiness to deal faultlessly with the disbursement of deposit compensation even within the shortened deadlines and is thus, for the coming years, as it was in the preceding two decades, ready to fulfil its role of a reliable, efficient and safe component of the domestic financial safety net.

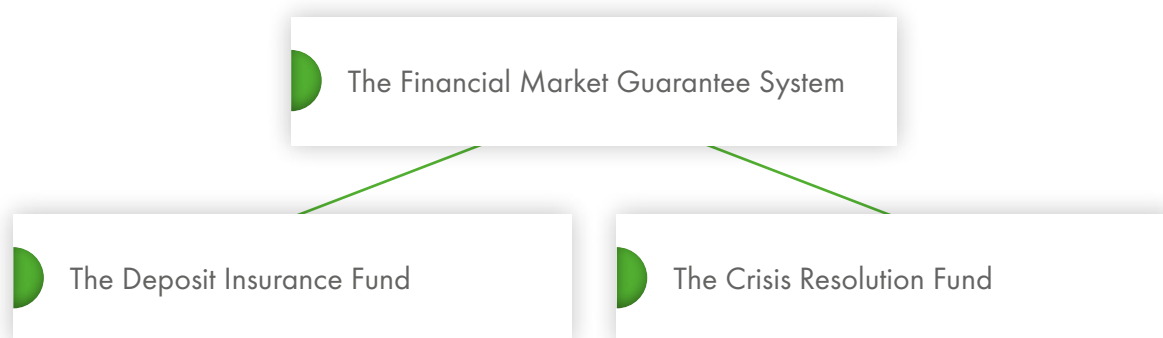
Dušan Hradil
Chairman of the Board of Directors
The Financial Market Guarantee System

II STRUCTURE OF THE FINANCIAL MARKET GUARANTEE SYSTEM

The Financial Market Guarantee System (Guarantee System) is an institution established by law to secure, manage and use financial resources intended to ensure and maintain the stability of the financial market in the Czech Republic. The Guarantee System was established under its original name the Deposit Insurance Fund through Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, as amended. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

Since that date the Guarantee System has assumed all the duties and functions of the former Deposit Insurance Fund, and also manages the new Crisis Resolution Fund. On that date, the Deposit Insurance Fund became an accounting unit of the Guarantee System, similarly to the new Crisis Resolution Fund. Unlike the Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund do not have legal personality.

Accounting units



The first pillar of the Guarantee System is the Deposit Insurance Fund, which is one of its accounting units. If the Czech National Bank makes an announcement on any financial institution included in the deposit insurance system being unable to meet its obligations to beneficiaries under statutory and contractual conditions, or if a court makes a decision on the bankruptcy of such institution, the Guarantee System will commence disbursement of compensation for receivables from deposits to the clients of that financial institution from the resources collected in that fund. Banks, branches of banks from non-Member States, building societies and cooperative credit unions (“insured institutions”) must make regular annual contributions to the Deposit Insurance Fund.

The second pillar of the Guarantee System is the Crisis Resolution Fund, which is also one of its accounting units. The resources collected in it may be used if there is a threat to the stability of any of the financial institutions, assuming compliance with other statutory conditions. This fund can also be used within the framework of individual crisis resolution tools whose objective is to prevent situations that could otherwise result in the insolvency or bankruptcy of a financial institution and the subsequent disbursement of deposit compensation to its clients. This fund does not serve for direct disbursements of compensation for deposits, but enables a solution in cases when the rescue of the financial institution is feasible, credible and in the public interest. Contributions to the Crisis Resolution Fund are made not only by institutions already participating in the deposit insurance system, but also by some investment firms, also on a regular annual basis.

III AUTHORISED REPRESENTATIVE

Bodies of the Guarantee System

The supreme body of the Guarantee System is the Board of Directors. Its members are appointed by the Minister of Finance of the Czech Republic. The Board of Directors has five members and is composed of two employees of the Czech National Bank, two employees of the Ministry of Finance of the Czech Republic, and one member appointed on a proposal from the Czech Banking Association. Its members are appointed for a term of five years. To ensure continuity, during the first

appointment one member was appointed for 3 years, two members for 4 years and two members for 5 years.

The statutory body of the Guarantee System, which ensures the activity of the Guarantee System and executes the decisions of the Board of Directors, is the Management Board. The Management Board has three members, who are appointed by the Board of Directors and who are employed by the Guarantee System.

Members of the Board of Directors of the Guarantee System in 2016

Chairman

Dušan Hradil

Term of office: until 2021

Departmental Director at the Ministry of Finance of the Czech Republic

Vice-Chairman

Karel Bauer

Term of office: until 2020

Director of a Czech National Bank section

Member

Radek Urban

Term of office: until 2021

Director of a Czech National Bank Department

Ondřej Landa

Term of office: until 2020

Deputy Head of the Legal Section at the Ministry of Finance of the Czech Republic

Josef Tauber

Term of office: until 2019

Advisor to the President of the Czech Banking Association

Members of the Management Board of the Guarantee System in 2016

Chairperson

Renáta Kadlecová

Executive Director

Member

Tomáš Hejduk

Chief Legal Manager

Roman Kahánek

Finance Manager

IV ACTIVITIES OF THE FINANCIAL MARKET GUARANTEE SYSTEM IN 2016

Macroeconomic Developments in the Czech Republic in 2016, Macroeconomic and Regulatory Environment of the Insured Institutions

2016 was another year of economic growth and stable performance for the Czech economy. Similarly, the banking sector as a whole confirmed its balanced condition. Gross domestic product grew by 2.3% in 2016. Similarly to the year before, growth was mainly driven by rising household expenditures and record exports, influenced in particular by exports of motor vehicles¹. The continued period of the weak koruna resulting from the Czech National Bank interventions also positively contributed to the performance of the export-oriented Czech economy. The year-on-year decline in GDP growth of 2% was primarily influenced by the “high benchmark from 2015, influenced in turn by a combination of one-off growth factors that were not repeated in 2016”.²

The positive economic development was reflected in a further fall in the unemployment rate by 1.2% to 3.6%, an eight-year low. “The unemployment rate is at its lowest level for the last twenty years. This, together with rising wages, has improved the financial situation of households and their confidence in future economic development”.³

The Czech Republic’s state budget closed last year with a surplus of CZK 61.8 billion, which was a positive difference of CZK 124.6 billion compared to 2015. The final result was CZK 131.8 billion better than the approved deficit of CZK 71 billion. Last time the budget achieved a surplus between 1993 and 1995. This result was thanks to savings on the expenditure side and more effective tax collection, continuing economic growth accompanied by high employment and growing wages in the business and public sectors. In addition to these factors, income from the EU amounted to CZK 157.6 billion, or CZK 65 billion more than budgeted⁴.

1 Motor vehicles accounted for 27.8% of total exports.
Source: Czech Statistical Office

2 Czech Statistical Office, *Economic Development in 2016* document: One of these factors was investment activity, whose contribution to GDP growth in 2016 was negative (-0.9 p.p.).

3 <http://www.ingbank.cz/tiskove-centrum/tiskove-zpravy-novinky/cesi-jsou-spokojeni-srustem-svych-uspor-uci-se-je-zhodnocovat.html>

4 Source: Ministry of Finance

The average annual rate of inflation for 2016 was 0.7%. The inflation rate, expressed as the increase in the consumer price index compared to the same month of the previous year, was already 2% in December 2016 (2015: 0.1%) and thus, compared to 2015, it was significantly closer to the inflation target of the Czech National Bank. Due to the CNB’s continued exchange rate commitment, the koruna exchange rate remained above CZK 27/ EUR during the whole of 2016, reaching a maximum of CZK 27.16/ EUR at the end of June 2016.

The intervention sales of the Czech koruna by the CNB significantly increased the liquidity on the interbank market and the short-term and medium-term government bond yields remained negative. Only long-term bonds showed low positive yields. In this situation, Czech banking institutions were limiting loss-making purchases of Czech government bonds and were depositing a substantial part of their excess free liquidity at the CNB at 0.05% p.a. The main buyers of Czech government bonds were thus foreign investors speculating on the strengthening of the Czech koruna after the end of the Czech National Bank exchange rate commitment.

According to the data of the Czech National Bank for 2016, the Czech Republic’s banking sector as a whole posted a net profit of CZK 74.7 billion, a growth of 12.5% compared to 2015. This year-on-year growth, despite a background of low interest rates and growing interbank competition, was driven primarily by a continuing fall in impairment losses, further growth in the loan portfolio in particular in mortgage loans for residential properties⁵ and higher dividend yields. A one-off positive impact on the profitability of the banking sector in 2016 compared to 2015 was the income on the sale of bank shares in Visa Europe.

The stable condition of the banking sector was confirmed by the results of the Czech National Bank stress tests based on financial data as of 30 September 2016⁶: “In spite of the high resilience of the sector as a whole, in the baseline scenario one bank would fail to meet the minimum capital adequacy level, which in the future would entail adjusting its business model or a need to add capital of about CZK 0.4 billion (0.01% of

5 The volume of mortgages provided in 2016 reached a record CZK 225 billion, a year-on-year growth of 22%.

6 Stress tests of the banking sector in the CR, November 2016.

GDP). In the event of an unfavourable scenario, a total of eight banks (representing about 13.5% of the sector's assets) would fail to meet the minimum capital adequacy level (8%). At the end of the test period, meeting the minimum capital adequacy level for all banks with registered offices in the CR would require a capital infusion of around CZK 8.6 billion. From the perspective of the size of the sector, this is not an amount that would significantly threaten its stability.

Despite the overall continued stability of the banking sector, an isolated case of bank failure occurred in 2016 when the CNB issued the official announcement on the inability of ERB bank, a.s. to meet its obligations. The disbursement of compensation to the clients of ERB bank, a.s. was commenced at selected branches of Česká spořitelna, a.s. on 20 October 2016. On 20 October 2016, the CNB Bank Board decided to withdraw the bank's license.

Cooperative and credit unions posted a loss of CZK 874,000 in 2016 compared to a profit of CZK 7.5 million for 2015. The cost of risk decreased significantly by CZK 182 million to CZK 44.3 million. The average share of classified receivables in the overall loan portfolio was 19.4% at the end of last year which, compared to the value for the banking sector of 4.53%, continues to indicate a significant difference in the quality of assets of the two sectors.

2016 was also the first year in which some provisions of the amendment to the Act on Credit Unions were in force for the whole of the year⁷. Of the significant changes, we can mention e.g. the introduction of the 10:1 ratio rule, the restriction of the maximum amount of the total assets of a cooperative credit union to CZK 5 billion, and the restriction of the maximum aggregate exposure to economically connected persons or related parties to CZK 30 million. The 10:1 regulation was primarily reflected in a change in the portfolio of deposit products by replacing savings accounts with medium-term term deposits. The regulation limiting the total assets to CZK 5 billion from 1 January 2018 had a greater impact. Three cooperative credit unions filed applications for a banking license⁸. The Creditas credit union has already been granted approval by the CNB to change its legal form from a cooperative credit union to a joint stock company together with a banking license. The transformation into a bank took place on 1 January 2017.

⁷ At the beginning of 2015, Act No. 333/2014 Coll., amending Act No. 87/1995 Coll., on Credit Unions, was adopted. This Act came into force on 1 January 2015, with the exception of the provisions coming into force on 1 July 2015 and on 1 January 2018.

⁸ The total assets of the two cooperative credit unions exceeded CZK 10 billion.

Public Contracts

In 2016, the Guarantee System implemented or commenced a total of six public contracts pursuant to Act No. 137/2006 Coll., on Public Procurement, as amended, while two of these were contracted as small-scale public contracts pursuant to Section 12 (3) and Section 18 (5) of the Act.

These were the following public contracts:

- ▶ Below-the-threshold public contract: Information system for portfolio management, risk management and financial market intelligence acquisition - Bloomberg;
- ▶ Below-the-threshold public contract: Information system for portfolio management, risk management and financial market intelligence acquisition - Thomson Reuters;
- ▶ Small-scale public contract: Developing and delivering software to support and record compensation for receivables from deposits, commenced at the end of 2015 and completed in 2016.
- ▶ Above-the-threshold public contract: Securing the reimbursement of compensation for deposits, internal number VZ 16/01, which was cancelled on 16 August 2016, as only one tenderer submitted a bid;
- ▶ Repeated announcement of the above-the-threshold public contract Securing the reimbursement of compensation for deposits, internal number VZ 16/02, which was commenced in 2016 and completed in 2017;
- ▶ Small-scale public contract: IT infrastructure and application management.

Information technologies and security

In the field of IT and security, in 2016 there was a series of other important changes. The 2nd phase of the three-year cycle of regular internal IT audits was performed, focused on the management of IT and the process of testing client data. Great emphasis was placed on the technical security of IT infrastructure. The IT infrastructure was rebuilt for security and the security monitoring system was re-calibrated. A part-time position of IT specialist was introduced - during the year this person underwent initial training and then took over the management of some parts of the infrastructure and operation of security monitoring.

Based on the result of the tender procedure for the public contract IT infrastructure and application management, an IT infrastructure and application management contract was concluded, which supplements the activity of the internal specialist. Together with a contractor selected through a tender procedure

for the public contract Developing and delivering software to support and record compensation for receivables from deposits, the technical specification was created for the new EYYNAL software, which will replace the existing POVYNAL information system. EYYNAL was programmed and implemented in a test environment. In 2017, client data will be tested within the framework of CR and European cooperation under the EFDI, and the agenda of banks that are currently reimbursing deposit compensation will be incorporated into the new system. In 2016, the use of electronic signatures (certificates) to secure communication with the CNB and via data boxes with public authorities, notaries and banks, and to ensure the authenticity of documents, was also introduced.

International Cooperation

In 2016, the Financial Market Guarantee System was a member of two international associations of similar organisations, namely the European Forum of Deposit Insurers (EFDI) and the International Association of Deposit Insurers (IADI). At the same time, the Guarantee System also developed bilateral cooperation with similar organisations, both in the EU and globally.

Within the framework of the European Forum of Deposit Insurers, in 2016 cooperation between deposit insurance systems from EU Member States was focused primarily on regulating the conditions of cross-border compensation of claims from deposits, implemented by Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes. A breakthrough success was the conclusion of a multilateral agreement on cross-border cooperation prepared by the European Forum of Deposit Insurers, which was signed by deposit insurance systems from 10 Member States, including the Czech Republic, at a meeting in Vilnius on 29 September 2016. Vilnius was also the location for an annual conference focused on the issue of the implementation of a unified European Deposit Insurance Scheme (EDIS). Another topic for 2016 was the stress testing according to the instructions of the European Banking Authority (EBA).

Guarantee System representatives also participated in a meeting of the EFDI's EU Committee, the EFDI's working group for communication and public relations, the working subgroup for the Banking Union and subgroups preparing the implementation of agreements on mutual cooperation between deposit insurance schemes in the payout of compensation for deposits in branches of foreign banks, which operate under the

EFDI's EU Committee. In February 2016, the EFDI's EU Committee meeting was held in Plzeň, organised by the Guarantee System.

The International Association of Deposit Insurers primarily focused its 2016 activities on discussions relating to the Revised Core Principles for Effective Deposit Insurance Systems. At the Europe Regional Committee, a comparative study of Core principles and Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes was submitted. The annual conference, held in Seoul in October, was focused on the issue of ensuring the readiness of the systems to face future crises. During this conference, a change to the internal arrangement of the organisation to better meet current needs was also discussed. Many more conferences and regional seminars took place during the year, primarily focusing on crisis resolution, the current challenges for deposit insurance systems, reinforcement of financial stability, etc.

At the end of 2016, following the conclusion of the multilateral agreement on cross-border cooperation, the Guarantee System commenced the preparation of bilateral specifications of supplementary and refining conditions to this multilateral agreement, namely with deposit insurance systems from countries in which financial institutions active in the Czech Republic through branches are insured.

On 8 November 2016, the Guarantee System concluded an agreement on cross-border cooperation with the Austrian S-Haftuns AG, which will not be a party to the multilateral agreement prepared by the European Forum of Deposit Insurers.

On 8 December 2016, the Guarantee System acceded to the Eddies data exchange system by concluding an accession agreement with its creator, the German Prüfungsverband deutscher Banken e.V.

Prague also saw another visit by the representatives of the Korea Deposit Insurance Corporation (KDIC), with the main topic of the talks being the role and standing of the Financial Market Guarantee System in insolvency and bankruptcy proceedings.

Representatives of the Guarantee System are also members of the resolution colleges of banking groups whose members also include banks operating in the Czech Republic. These resolution colleges were established in accordance with Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms. The main task of the

resolution colleges is to create group plans for crisis resolution and, in the event of a resolution situation, to exercise the appropriate decision-making powers.

Investment Activities

The Guarantee System separately manages the assets of the Deposit Insurance Fund and the Crisis Resolution Fund. The individual funds have different sources of financing and a different method of use determined by Act No. 21/1992 Coll., on Banks, as amended, Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, and Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

The Guarantee System can only invest resources in managed funds in a safe manner in accordance with statutory requirements, the statute of the Guarantee System, the statutes of the individual managed funds, and other internal rules of the Guarantee System.

Through long-term and short-term investment strategies, the investment policy determines the method of investing financial reserves both by external investment managers and by the

Guarantee System itself. The long-term investment strategy is a long-term framework for composing and determining the risk positioning of individual portfolios. The short-term investment strategy defines, within the limits of the long-term investment strategy, the risk parameters of the benchmark, the parameters of the investment limits of the portfolio in performing individual transactions, the market risk conditions and other investment limits.

Information on the management of the portfolios of the two funds in 2016 is contained in Chapters V. Role and Activities in Deposit Insurance in 2016, respectively VI. Role and Activities in Crisis Resolution in 2016.

Reporting method

The Financial Market Guarantee System prepares an annual report.

The Financial Market Guarantee System publishes the annual report after it is audited on its website, and archives the original in paper form in accordance with the Archiving and Shredding Rules.

V PROVISION OF INFORMATION PURSUANT TO ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION

In accordance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as amended, the Guarantee System states that no requests for information pursuant to this Act were

received by it in 2016 and there are no other circumstances relating to the application of this Act which it is obliged to disclose in accordance with Section 18 of this Act.

VI ROLE AND ACTIVITIES IN DEPOSIT INSURANCE IN 2016

Role in Deposit Insurance

The role of the Guarantee System in deposit insurance is to help stabilize the Czech banking market and protect clients of banks and other insured financial institutions if these institutions are not able to repay their deposits. The Guarantee System manages resources in the Deposit Insurance Fund that are used to disburse compensation for deposits of clients of a financial institution the Czech National Bank has labelled as unable to meet its obligations to beneficiaries under statutory and contractual terms, or where a court has decided on bankruptcy or has made a different decision for reasons directly related to the financial situation of such institution, a consequence of which is the suspension of depositors' right to dispose of deposits covered by the insurance. The deposits of a single depositor at a single insured institution are fully insured for such a case up to an amount equal to the equivalent of EUR 100,000, while this limit is even increased in some cases precisely defined by legislation (cases of temporary high balances mentioned in following paragraph - Legislation).

As of 31 December 2016, deposits at banks, building societies and cooperative credit unions that complied with the insurance conditions totalled CZK 3.2 trillion. A total of 32 financial institutions that held such insured deposits contributed CZK 2.1 billion to the Deposit Insurance Fund in 2016.

Legislation

Activity in deposit insurance is governed by Section 41 a to Section 41 s of Act No. 21/1992 Coll., on Banks, as amended (the "Act on Banks").

Pursuant to the Act on Banks, all banks, branches of banks from other than Member States, building societies and cooperative credit unions (insured institutions) must participate in the deposit insurance system and contribute to the Deposit Insurance Fund within the scope stipulated by the Act.

Pursuant to Section 41 c of the Act on Banks, the insurance covers all receivables from deposits denominated in the Czech or a foreign currency, including interest, if the requirements for depositor identification pursuant to Section 41 c (3) of the Act on Banks are met, provided that such deposits were registered as a credit

balance in accounts or bankbooks, or certified by a certificate of deposit, deposit note or other similar document.

Individuals are identified by their name, surname, address, and date of birth or birth certificate number, or by an identification number, while legal persons are identified by their business name or the name of the legal person, registered office, and domestic legal persons also by their identification number.

The insurance does not apply to receivables from deposits made by banks, branches of banks from other Member States, savings banks, cooperative credit unions, investment firms, financial institutions, insurance companies, reinsurance companies, health insurance companies, state and territorial self-government units whose tax revenues under the Act on Budget Allocation of Revenue of Certain Taxes to Territorial Self-Government Units and to Certain State Funds are higher than the equivalent of EUR 500,000. Receivables from deposits that a bank is entitled to partially include in its own capital (subordinated debt) and receivables resulting from the final judgment relating to a crime intentionally committed to legalize the proceeds of crime, if not secured for the benefit of the crime victim, are also not insured.

Compensation for an insured receivable from a deposit from the Deposit Insurance Fund is disbursed to a beneficiary after the Guarantee System receives written notification from the Czech National Bank on the inability of the insured institution to meet its obligations to beneficiaries under statutory and contractual terms, or after a court or a foreign court has decided on bankruptcy or has made a different decision for reasons directly related to the financial situation of an insured institution, a consequence of which is the suspension of depositors' right to dispose of deposits covered by the insurance (the Record Day).

Compensation is disbursed to both natural persons and legal persons and is paid out in the currency of the state in which the account in question is located.

Since 31 December 2010, in accordance with the Act on Banks, the limit on the maximum disbursement of compensation to a beneficiary has been EUR 100,000. The deadline for commencing the disbursement of deposit compensation was reduced from the original 20 business days to 7 business days from the Record Day on 1 June 2016.

The amount of the contributions that insured institutions send to the Deposit Insurance Fund is determined by the Czech National Bank through a calculation that takes into consideration not only the volume of insured deposits, but also the level of risk assumed by the relevant insured institution. The amount of the contributions is not, since 1 January 2016, calculated from the volume of insured deposits at the insured institution (regardless of the maximum coverage limit), unlike before, but from the volume of covered deposits (i.e. deposits within the coverage limit of an amount equivalent to EUR 100,000).

Beginning with 2016, the frequency of contribution payment also changed. Insured institutions now pay contributions once a year, by 30 June of the given year.

The amendment to the Act on Banks effective from 1 January 2016 introduced the possibility of disbursing increased compensation for "temporary high balances" above the basic coverage limit in certain statutory cases (e.g. when the deposit concerns the sale of real estate used for residential purposes, settlement of the common property of spouses, inheritance, etc.). Increased compensation will be paid up to the amount by which the deposit concerned exceeds the amount calculated as the basic compensation (i.e. a maximum amount equivalent to EUR 100,000 for a single beneficiary at a single insured institution), but will not exceed an amount equivalent to an additional EUR 100,000 for a single beneficiary at a single insured institution. The condition is that the Record Day occurs within 3 months from the date such amount is credited to the account (or from the date when the eligible person could first dispose of the amount).

Since 1 January 2016, legislation has also simplified access to compensation for deposit receivables for clients from foreign banks from EU Member States operating in the Czech Republic through a branch. In the event of bankruptcy of a foreign bank based in an EU Member State and operating in the Czech Republic through a branch, the disbursement in the Czech Republic will be made by the Guarantee System according to the instructions and to the account of the foreign deposit insurance scheme where the institution in question was insured. The same principle applies in the opposite case, meaning in the event of bankruptcy of a bank based in the Czech Republic that operates in the territory of another Member State through a branch, the local deposit insurance system will disburse compensation to clients in that Member State on the basis of instructions and to the account of the Financial Market Guarantee System.

Testing banking data

In September and October 2016, the Financial Market Guarantee System successfully verified the functionality of the system for

disbursing deposit compensation as required by Section 41 n (1) of the Act on Banks. In accordance with Decree of the Ministry of Finance of the Czech Republic No. 71/2011 Coll., on the Form, Structure and Manner of Management and Provision of Data that a Bank and a Branch of a Foreign Bank are Obligated to Maintain and Must be Provided to the Deposit Insurance Fund, as amended as of 31 December 2016, the Guarantee System successfully tested the client data of all 33 financial institutions (18 banks, 5 building societies and 10 cooperative credit unions) participating in the deposit insurance system.

During 2016, the Guarantee System participated in the preparation of an amendment to Decree No. 71/2011 Coll., which needed to be updated following the amendment to the Act on Banks effective from 1 January 2016. The amendment to the Decree became effective on 1 January 2017.

Disbursements of Compensation for receivables from Deposits

Resources from the Deposit Insurance Fund may be drawn, pursuant to Section 41 a (5) of the Act on Banks, only for deposit compensation to beneficiaries and for debt repayments, or may be used to resolve crises at financial institutions under the conditions determined in Section 221 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution. Since its establishment, the Guarantee System (formerly the Deposit Insurance Fund) has disbursed compensation for deposits twenty-two times, providing compensation to clients of thirteen banks and five cooperative credit unions, through eighteen regular and four additional disbursements totalling CZK 45.37 billion as of 31 December 2016.

During 2016, the Guarantee System carried on with previously commenced disbursements of compensation for deposits. In 2016, the Guarantee System disbursed to clients of Metropolitní spořitelni družstvo compensation of CZK 6.19 million, and to clients of WPB Capital, spořitelni družstvo compensation of CZK 24.87 million. On 20 October 2016, the Guarantee System commenced disbursement of compensation for deposits to clients of ERB bank, a. s. which, based on the announcement by the Czech National Bank of 11 October 2016, had become unable to meet its obligations to beneficiaries under statutory and contractual conditions. The Guarantee System disbursed compensation to clients of ERB bank, a. s. totalling CZK 3,231,990,000 as of 31 December 2016. In 2016, with the expiration of the statutory three-year period, the disbursement of compensation for deposits to clients of Úvěrní družstvo PDW, Praha was terminated. The Guarantee System disbursed total compensation for deposits of CZK 3,263,050,000 in 2016.

Table 1 Compensation Disbursed from the Deposit Insurance Fund to 31 December 2016
(in CZK mil.)

Insured institution	Compensation for deposits disbursed	Date of commencement of compensation disbursement
Česká banka, a. s.*	948.61	11/12/1995
AB banka, a. s.	0.03	31/1/1996
První slezská banka, a. s.	217.48	15/5/1996
Podnikatelská banka, a. s.	1,073.54	17/6/1996
Realitbanka, a. s.	23.97	24/7/1996
Velkomoravská banka, a. s.	1,006.09	29/7/1996
Kreditní banka Plzeň, a. s.	580.30	23/9/1996
Pragobanka, a. s.**	414.13	1/12/1998
Universal banka, a. s.**	2,299.75	17/5/1999
Moravia banka, a. s.**	6,394.69	11/10/1999
Union banka, a. s.	12,366.79	17/5/2003
Plzeňská banka, a. s.	135.70	7/6/2003
Vojenská družstevní záložna	68.34	30/5/2011
UNIBON, spořitelni a úvěrní družstvo	1,805.96	23/7/2012
Úvěrní družstvo PDW, Praha	17.60	11/3/2013
Metropolitní spořitelni družstvo	12,011.19	27/1/2014
WPB Capital, spořitelni družstvo	2,772.30	14/10/2014
ERB bank, a. s.	3,231.99	20/10/2016
Total	45,368.46	

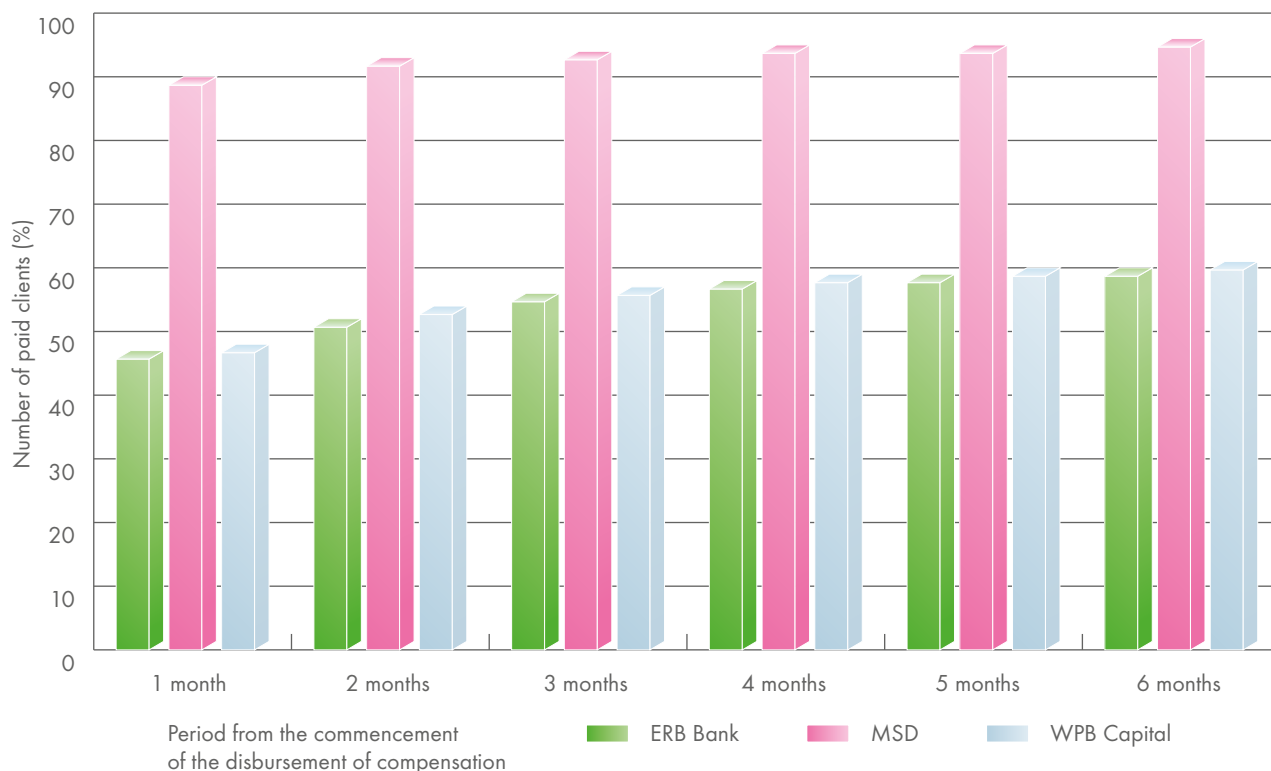
* disbursement of additional compensation commenced on 8/6/1998

** disbursement of additional compensation commenced on 4/1/2002

The Guarantee System commenced disbursement of compensation for deposits to clients of ERB bank, a. s. within the shortened deadline of 7 business days. The course of the disbursement was, however, similar to that of the previous case of disbursement to clients of WPB Capital, spořitelni družstvo. Clients received the greatest volume of compensation in the first and second months from commencement (ERB bank 52%,

WPB Capital, spořitelni družstvo 54% of all beneficiaries). Compared to the situation during the disbursement of compensation for Metropolitní spořitelni družstvo (the payment of 93% of beneficiaries in the first two months), this was however a slower start. This could be due to the significantly higher average balances per client at Metropolitní spořitelni družstvo.

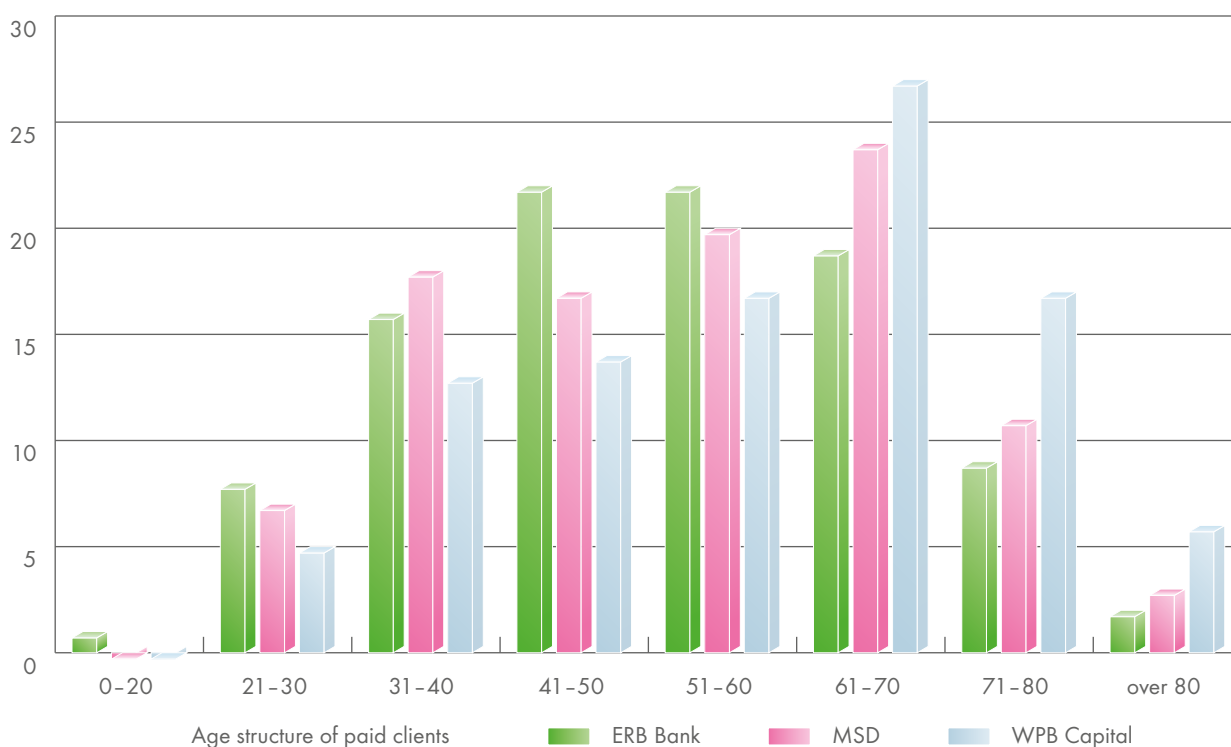
Graph 1 Disbursements to clients during the 1st to 6th months of compensation disbursement



It is also interesting to look at the age structure of the clients (natural persons) in the last three commenced compensation cases - namely the clients of Metropolitní spořitelní družstvo, WPB Capital, spořitelní družstvo and ERB bank, a. s. The greatest share

of clients of the cooperative credit unions are representatives of the older generation, aged between 61 and 70, while in the case of ERB bank, a. s. the largest share of clients are people of higher working age, meaning between 41 and 60.

Graph 2 Age structure of clients of disbursed banks (%)



Since the establishment of the deposit insurance system in 1994, the limit on insured receivables from deposits has been adjusted several times. These changes are shown in the table below:

Table 2 Development of Changes in the Limit on Deposit Insurance and in the Excess Paid by Beneficiaries

Amendment to the Act on Banks	Effective from	Compensation to deposit ratio	Maximum limit in CZK	Maximum limit in EUR
156/1994 Coll.	29 July 1994	80%	100,000	
16/1998 Coll.	6 February 1998	80%	300,000	
165/1998 Coll.	1 September 1998	90%	400,000	
319/2001 Coll.	7 September 2001	90%		25,000
433/2008 Coll.	15 December 2008	100%		50,000
156/2010 Coll.	31 December 2010	100%		100,000

Notes: The limit has been specified in euros since September 2001.

Receivables against Insured Institutions

Pursuant to Section 41h (2) of the Act on Banks, starting from the disbursement commencement date the Guarantee System becomes a creditor of the insured institution that has failed to meet its commitments under statutory and contractual terms and conditions, to the extent of the rights of beneficiaries of the bank to receive payment from the Deposit Insurance Fund.

Of the total of thirteen banks and five cooperative credit unions paid out, bankruptcy proceedings have only been completed in seven cases, and liquidation has only been completed in one. In 2016, bankruptcy proceedings were closed in the case of Česká banka, a.s.

Of the total amount of disbursed compensation for deposits, which reached CZK 45.4 billion as of 31 December 2016, CZK 43.6 billion of the Guarantee System claims have been recognised in bankruptcy proceedings and liquidation processes. Claims arising from additionally disbursed compensation for deposits in respect of Pragobanka, a. s., Universal banka, a. s., and Moravia banka, a. s., were not recognised because the Guarantee System (under its original name Deposit Insurance Fund), when registering them, neither

met nor could have met the deadlines for registering the claims laid down by the Bankruptcy and Composition Act in force at that time. In fact, the amendment to the Act on Banks, under which the Guarantee System (under its original name Deposit Insurance Fund) disbursed this additional compensation, was adopted after the expiry of the relevant deadlines. The Guarantee System did not succeed with its request for the recognition of these claims in court proceedings.

The table below shows a summary of the Guarantee System claims against the individual banks and cooperative credit unions as registered as of 31 December 2016 for the bankruptcy proceedings and the liquidation process of the disbursed banks and cooperative credit unions. Of the total of CZK 40,223,480,000 in registered claims, a preliminary distribution schedule has been drawn up for four banks and two cooperative credit unions and a final distribution schedule has been drawn up for one bank (however, the bankruptcy proceedings have not been completed yet), with a total received payment for the Guarantee System of CZK 10,151,350,000. The Guarantee System currently has CZK 30,072,120,000 in claims against banks.

Table 3 Overview of Registered Receivables in Bankruptcy and Liquidation proceedings as of 31 December 2016
(in CZK mil.)

Insured institution	Type of disbursement	Total amount of claim in bankruptcy/ liquidation	Returned to the Deposit Insurance Fund	Claim in bankruptcy/ liquidation
AB banka, a. s.	regular	0.23	0.02	0.21
Velkomoravská banka, a. s.	regular	1,006.63	224.31	782.32
Universal banka, a. s.	regular	1,862.64	693.44	1,169.20
Moravia banka, a. s.	regular	4,753.69	950.74	3,802.95
Union banka, a. s.	regular	12,416.54	3,724.96	8,691.58
UNIBON, spořitelní a úvěrní družstvo	regular	1,806.57	495.54	1,311.03
Úvěrní družstvo PDW, Praha	regular	20.97		20.97
Metropolitní spořitelní družstvo	regular	12,021.47	4,062.34	7,959.13
WPB Capital, spořitelní družstvo	regular	2,799.88		2,799.88
ERB bank, a. s.	regular	3,534.85		3,534.85
Total		40,223.47	10,151.35	30,072.12

As concerns bankruptcy proceedings completed by the end of 2016, judicial composition has already been carried out in the case of Podnikatelská banka, a. s., and composition as part of the closing schedule in the case of Pragobanka, a. s., Plzeňská banka, a. s., První slezská banka, a. s., Kreditní banka Plzeň, a. s., and Česká banka, a. s., and composition as part of the completed liquidation of Vojenská družstevní záložna, a. s.

The bankruptcy proceedings of Realitbanka, a. s. were terminated because of lack of assets. Thus the Fund has no more registered claims against these seven banks and one cooperative credit union as of 31 December 2016. A summary of these claims in completed bankruptcy and liquidation proceedings, including revenues received and recovery rates achieved, is shown in the table below.

Table 4 Summary of the Proceeds of Receivables against the Insured Institutions in Completed Bankruptcy and Liquidation proceedings as of 31 December 2016
(in CZK mil.)

Insured institution	Type of disbursement	Total amount of claim	Returned to the Deposit Insurance Fund	Recovery rate (%)
Podnikatelská banka, a. s.	regular	1,075.53	548.52	51.00
Pragobanka, a. s.	regular + additional	348.20	184.33	52.94
Plzeňská banka, a. s.	regular	134.85	70.67*	52.41
Realitbanka, a. s.	regular	24.20	0.00	0.00
Vojenská družstevní záložna	regular	69.05	45.55	65.97
První slezská banka, a. s.	regular	217.50	11.54	5.30
Kreditní banka Plzeň, a. s.	regular	580.95	58.48	10.07
Česká banka, a. s.	regular	961.67	20.73	2.16
Total		3,411.95	939.82	27.54

* In addition to this payment, the Deposit Insurance Fund received CZK 1.025 million from the bankruptcy assets of Plzeňská banka, a. s. in 2004 as an additional payment to the contribution for insured deposits for 2003

Graph 3 Development of recovery ratio of receivables against bankrupt banks and cooperative credit unions



Contributions by Insured Institutions to the Deposit Insurance Fund

Since 2016, the method of calculation and collection of the annual contribution of insured institutions to the Deposit Insurance Fund has changed, with the Czech National Bank setting the amount of annual contributions for each institution depending on the amount of covered claims from deposits registered against the given insured institution and its overall risk profile. The insured institutions must now pay contributions to the Deposit Insurance Fund by 30 June of the relevant calendar year.

For 2016, the insured institutions paid contributions to the Deposit Insurance Fund totalling CZK 2,055,540,000, of which CZK 1,176,110,000 was the contribution for the 4th quarter of 2015 and CZK 879,430,000 was for 2016. Due to the achievement of the target volume of resources in the Deposit Insurance Fund (0.8% of covered deposits), according to the legislation effective from 1 January 2016, the annual contribution is only 0.045% of covered deposits. The table below shows a summary of the contributions received by the Deposit Insurance Fund over the past 10 years. Since its establishment in 1994, the Deposit Insurance Fund has received a total of CZK 55,096,520,000 in contributions.

Table 5 Contributions by Insured Institutions to the Deposit Insurance Fund by year of contribution payment, for the past 10 years

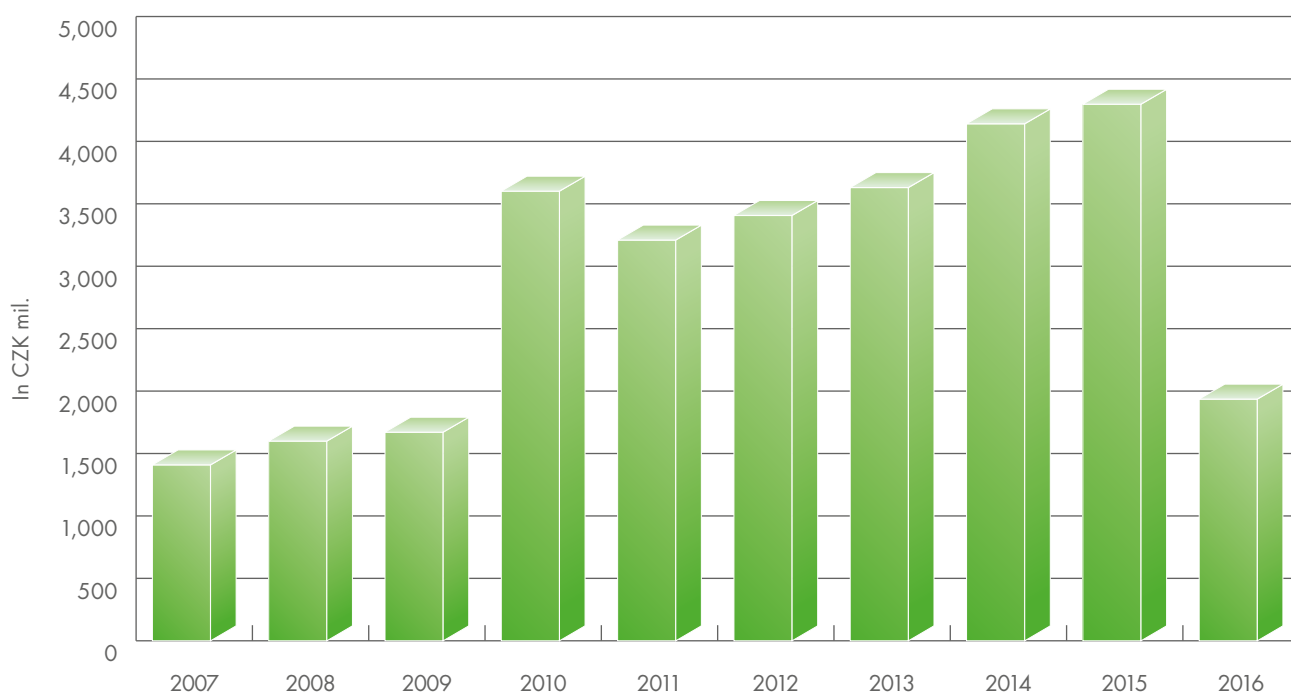
Contribution payment year	Amount in CZK mil.
2007	1,528.63
2008	1,719.18
2009	1,790.58
2010*	3,721.03
2011	3,329.39
2012	3,526.62
2013	3,749.82
2014	4,260.52
2015**	4,417.47
2016***	2,055.54
Total	30,098.78

* In 2010, the periodicity of contribution payments changed from annual to quarterly from 1 July

** In 2014, an advance payment of a contribution due in 01/2015 was made

*** Since 2016, the annual frequency of contributions to the Deposit Insurance Fund also contains the payment for the 4th quarter of 2015

Graph 4 Contributions by Insured Institutions to the Deposit Insurance Fund by year of payment for the last 10 years



Graph 5 Number of institutions contributing to the Deposit Insurance Fund over the last 10 years



Management of the Deposit Insurance Fund Portfolio

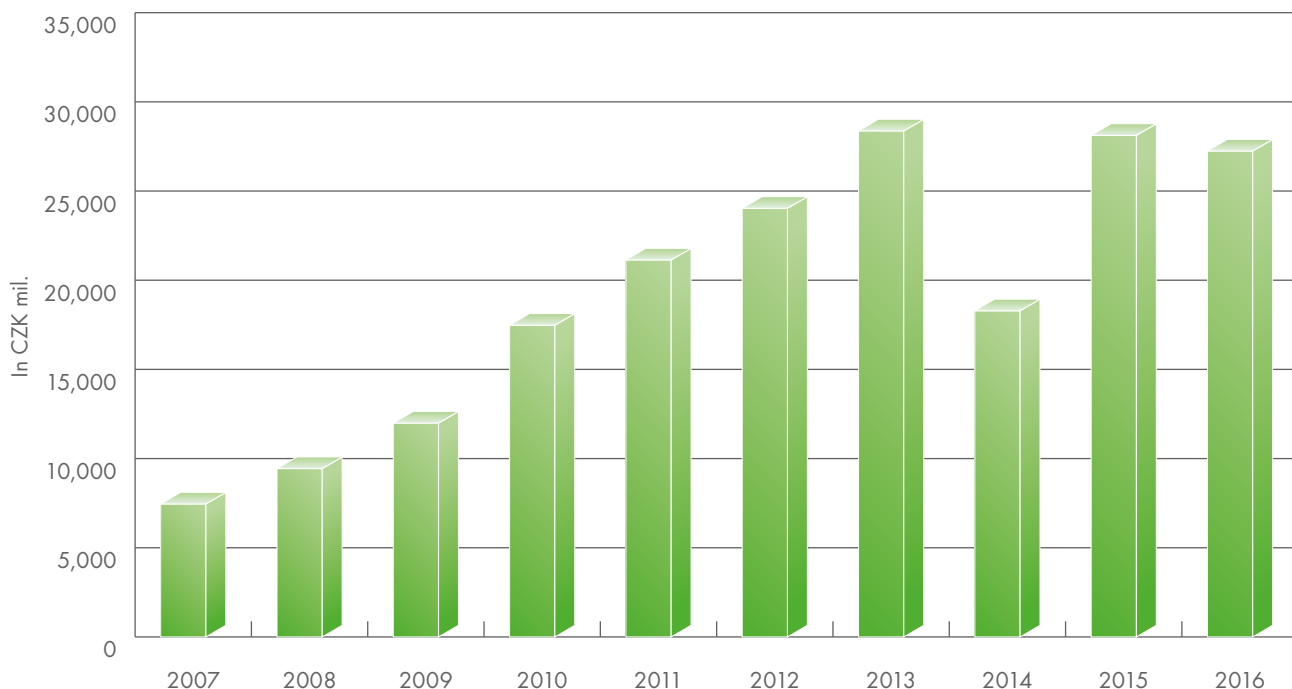
The total volume of Deposit Insurance Fund financial reserves at the end of 2016 reached CZK 27.896 billion. The financial reserves of the Deposit Insurance Fund are divided into three portfolios: the mark-to-market portfolio (MTM portfolio) managed by three external investment managers; the held-to-maturity securities portfolio (HTM portfolio) managed by a single investment manager; and the short-term portfolio managed directly by the Guarantee System.

In 2016, a decision was made to completely sell off the MTM portfolio, the balance of which amounted to CZK 763 million at the end of the year (the sale was ended in January 2017) and represented only 3% of the value of the assets. This decision was taken in view of the increasing risk of high volatility and systemic risks on the bond market.

The HTM portfolio was reduced by CZK 53 million over the year, when funds from a bond that had matured were transferred to the short-term portfolio. The HTM portfolio is primarily composed of medium-term and long-term fixed-coupon bonds issued by the Ministry of Finance of the Czech Republic. At the end of 2016, the HTM portfolio made up 13% of the total volume of the Deposit Insurance Fund financial reserves.

The financial reserves managed directly by the Guarantee System through its short-term portfolio were invested in short-term repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or the Czech National Bank and deposits. At the end of 2016, the short-term portfolio made up 84% of the total volume of the Deposit Insurance Fund financial reserves.

Graph 6 Development in the volume of financial reserves in the Deposit Insurance Fund 2007–2016



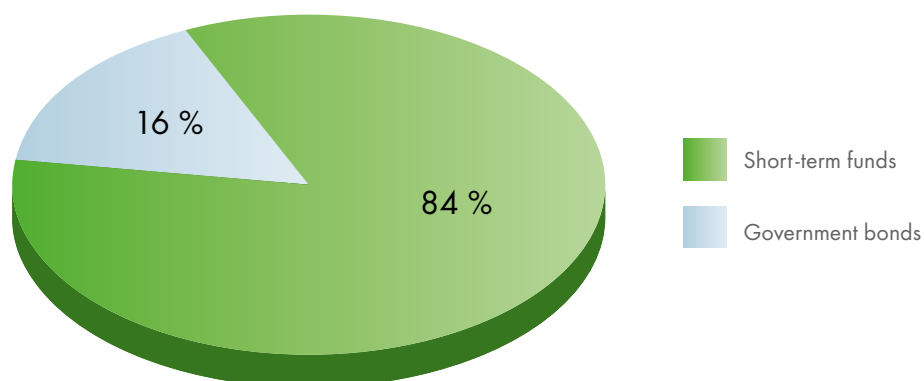
At the end of 2016, Deposit Insurance Fund financial reserves were composed of 84% short-term funds (deposits, buy/sell and repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic and the Czech National Bank) and 16% domestic government bonds issued by the Ministry of Finance of the Czech Republic.

Table 6 Structure of financial reserves by instrument, as of 31 December 2016

Type of instrument	Value in CZK mil.
Current accounts, term deposits, buy/sell and repo operations, receivables. *	23,560.86
Bonds:	4,334.99
of which: Treasury bills	0.00
Medium-term and long-term government bonds	4,334.99
Total	27,895.85

* Receivables arising from financial transactions and unpaid coupons

Graph 7 Structure of financial reserves by instrument, as of 31 December 2016

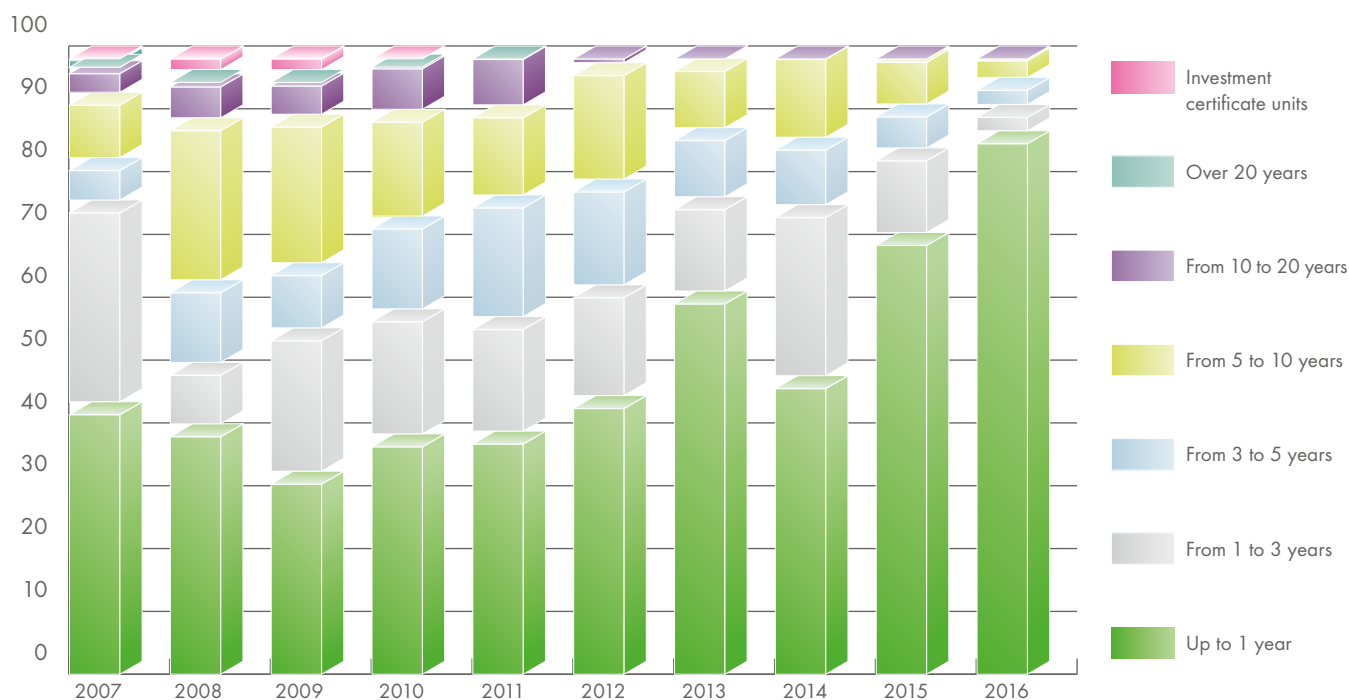


Debt instruments maturing within 1 year made up the largest share (86.5%) in the total volume of financial reserves, and the remaining portion of the portfolio is divided by maturity among instruments maturing in 1 to 3 years (4.2%), 3 to 5 years (4.3%), 5 to 10 years (4.7%) and 10 to 20 years (0.3%).

Table 7 Structure of financial reserves by maturity, as of 31 December 2016

Instrument maturity	Value in CZK mil.
Up to 1 year	24,121.95
From 1 to 3 years	1,173.74
From 3 to 5 years	1,218.48
From 5 to 10 years	1,304.39
From 10 to 20 years	77.29
Total	27,895.85

Graph 8 Development of the financial reserve structure by maturity



The total gross appreciation of Deposit Insurance Fund financial provisions for 2016 was 0.49% p.a., i.e. approximately CZK 147.9 million.

Main Cash Flows of the Deposit Insurance Fund – History

Table 8 Summary of the Deposit Insurance Fund income and expenditure, 1994-2016
(in CZK mil.)

I	Income	76,918.67
	Contributions from banks and cooperative credit unions	56,272.80
	Income from judicial composition and bankruptcy proceedings	11,092.19
	Refunds of disbursed compensation	130.14
	Returned advance payments of non-disbursed compensation	62.16
	Interest received and other revenues	6,361.38
	– investment revenue	6,259.09
	– other financial revenue	102.29
	Loans received	3,000.00
II.	Expenditure	49,010.45
	Compensation for deposits disbursements	45,556.47
	Operating costs	330.92
	Operating costs of the Crisis Resolution Fund ¹⁾	1.90
	Interest paid	121.16
	Loan repayments	3,000.00
III	Difference between income and expenditure	27,908.22

Note: 1) As there were no resources in the operational fund of the Crisis Resolution Fund, the operating costs of the Crisis Resolution Fund were paid from an advance provided from resources on the Deposit Insurance Fund. After the resources in the operational fund of the Crisis Resolution Fund are supplemented, this advance will be refunded to the Deposit Insurance Fund.

VII ROLE AND ACTIVITIES IN CRISIS RESOLUTION IN 2016

Role of the Crisis Resolution Fund

The establishment of the Crisis Resolution Fund has brought, since 1 January 2016, the possibility of resolving problem situations at financial institutions through other instruments than only the disbursement of compensation for receivables from deposits. The purpose of the Fund is to have available resources that can be used in the event of a threat to the stability of a financial institution so that it is not necessary to terminate its existence and initiate the disbursement of compensation for deposits to its clients. The Czech National Bank, as the resolution authority, decides on the use of these resources. This measure can only be applied if the institution is failing or if its failure can reasonably be anticipated, there are no other supervisory or private sector measures that would prevent the institution's failure in the short term, and if the resolution of the crisis is in the public interest.

The objective is to strengthen the stability of the financial sector, minimize costs and damage and, if possible, eliminate the use of public funds.

Legislation

The activity of the Guarantee System in crisis resolution is governed by Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution (the "Act on Recovery Procedures"). This Act transposed into the Czech legal system Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms. A second important piece of legislation at European level is Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

The Act on Recovery Procedures governs:

- ▶ restructuring tools;
- ▶ crisis resolution planning;
- ▶ the status and powers of the Czech National Bank;
- ▶ procedures in the event of failure of an obliged entity or group failure;
- ▶ crisis resolution financing, and
- ▶ cross-border cooperation and the procedures applied during it.

This Act imposes a duty on the Guarantee System through its statute to establish the Crisis Resolution Fund in order to provide a financing mechanism for crisis resolution. The management of the resources of the Crisis Resolution Fund is governed, in particular, by Section 209 and subsequent of the Act on Recovery Procedures.

The Crisis Resolution Fund is, by law, composed of two funds:

- ▶ The Contribution Fund, which consists of regular or extraordinary contributions from financial institutions, resources raised from the market, loans within the framework of mechanisms for financing crisis resolution, or state subsidies or assistance and other revenues based on decisions by the Czech National Bank.
- ▶ The Operational Fund, which consists mainly of yields from the investment of the resources on the Crisis Resolution Fund and the proceeds of completed liquidation and insolvency proceedings.

Contributions are made to the Crisis Resolution Fund not only by financial institutions already involved in the deposit insurance system (banks, branches of banks from other than Member States, cooperative credit unions and building societies), but also by some investment firms.

Resources from the Crisis Resolution Fund can be used on the basis of a decision by the Czech National Bank only for statutory purposes if any of the contributing institutions gets into difficulty and it is in the public interest to avoid a situation where it would be necessary to terminate the activity of such institution and initiate the disbursement of compensation for deposits to its clients.

These resources may thus be used, for example, to provide security for the institution's assets and debts, to provide a loan, to buy the assets of the institution, etc., in accordance with Section 212 of the Act on Recovery Procedures, which may contribute to resolving the financial situation of such institution.

Contributions to the Crisis Resolution Fund

The amount of contributions to the Crisis Resolution Fund is determined by the Czech National Bank following discussion with the Guarantee System, in accordance with Commission Delegated Regulation (EU) 2015/63 of 21 October 2014

supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements. The Czech National Bank is obliged to take into account that the target volume of assets in the contribution fund of the Crisis Resolution Fund must reach 1% of the total volume of covered deposit receivables by 31 December 2024.

The contribution for 2016 was set by the Czech National Bank in the amount of CZK 2.959 billion. The objective is that the Crisis Resolution Fund will accumulate approximately CZK 27 billion in its contribution fund by 31 December 2024.

Institutions are obliged to pay contributions to the Crisis Resolution Fund based on the decision of the Czech National Bank regarding the amount of the specific contribution, issued

by the Czech National Bank to the relevant financial institution by 1 May each year.

Management of the Crisis Resolution Fund Portfolio

2016 was the first year of existence of the Crisis Resolution Fund. The total amount of contributions received from financial institutions to this fund in the mentioned year was just under CZK 2.959 billion. This amount also represents the volume of financial reserves of the Crisis Resolution Fund as of 31 December 2016, deposited on a current account with the CNB.

The total gross return on the financial reserves of the Crisis Resolution Fund for 2016 was 0.0% p.a.

Main Cash Flows of the Crisis Resolution Fund

Table 9 Summary of income and expenditure for 2016
(in CZK mil.)

I	Income	2,958.88
	Contributions from financial institutions	2,958.88
II.	Expenditure	0
	Operating costs ¹⁾	0
III	Difference between income and expenditure	2,958.88

Note: 1) As there were no resources in the operational fund of the Crisis Resolution Fund, the operating costs of the Crisis Resolution Fund were paid from an advance provided from resources on the Deposit Insurance Fund. After the resources in the operational fund of the Crisis Resolution Fund are supplemented, this advance will be refunded to the Deposit Insurance Fund.

VIII THE FINANCIAL MARKET GUARANTEE SYSTEM INDEPENDENT AUDITOR'S REPORT



(Translation of a report originally issued in Czech.)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the company Garanční systém finančního trhu:

Opinion

We have audited the accompanying financial statements of Garanční systém finančního trhu ("the Company") prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2016, and the income statement, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to the matter described in Note 2.16 to the financial statements, which states that the Company prepares its financial statements and maintains its accounting records in accordance with Decree No. 504/2002 Coll., as amended, applicable to entities whose principal activity does not involve business.

Pursuant to the accounting legislation in this Decree, the Company recognizes neither impairment allowances nor provisions. For the levels of provisions and allowances that the Company would have recognized had it been allowed by the Decree, refer to Notes 3.1.

The Company uses all these internal policies in the consistency with the prior years.

Our opinion is not modified in respect of this matter.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body of the Company is responsible for the other information.



Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Company's Statutory Body for the Financial Statements

The Statutory Body of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Statutory Body of the Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Statutory Body of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body of the Company either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body of the Company.
- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401


Roman Hauptfleisch, Auditor
License No. 2009

20 June 2017
Prague, Czech Republic

FINANCIAL STATEMENTS

THE FINANCIAL MARKET GUARANTEE SYSTEM

Registered office:	Týn 639/1, 110 00 Prague 1, Staré Město
Identification number:	49710362
Date of financial statements:	31/12/2016
Date of preparation of financial statements:	27/4/2017

Balance Sheet as of 31 December 2016 (CZK '000)

ASSETS	As of 1 January 2016	As of 31 December 2016
A. Total fixed assets	3,517,970	3,578,060
I. Intangible fixed assets – software	3,443	4,045
II. Tangible fixed assets	1,483	1,543
Works of art, objects and collections	46	46
Buildings	0	0
Tangible assets and their sets	1,437	1,497
III. Long-term investments – bonds, debentures and similar securities held to maturity	3,516,518	3,576,546
IV. Total accumulated depreciation and amortisation of fixed assets	-3,474	-4,074
Accumulated amortisation of software	-2,566	-2,885
Accumulated depreciation of buildings	0	0
Accumulated depreciation of machinery and equipment	-908	-1,189
B. Total current assets	52,997,701	57,367,618
II. Total receivables	27,995,200	30,090,005
Operating advances paid	16	11
Other receivables	27,995,184	30,089,994
III. Total current financial assets	25,002,314	27,277,350
Cash in hand	28	47
Stamps and vouchers	104	115
Financial resources on accounts	16,789,221	26,518,738
Debt securities held for trading	8,212,961	758,450
IV. Total other assets	187	263
Prepaid expenses	187	263
Accrued income	0	0
Total assets	56,515,671	60,945,678

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Year ended 31 December 2016

(CZK '000)

LIABILITIES	As of 1 January 2016	As of 31 December 2016
A. Total equity	56,457,284	60,643,968
I. Equity – funds	53,147,748	57,221,981
II. Total profit/loss	3,309,536	3,421,987
Profit/loss account	×	112,451
Retained earnings / Retained losses from prior years	3,309,536	3,309,536
B. Total liabilities	58,387	301,710
III. Total current payables	58,387	301,710
Payables to suppliers	4	607
Other payables to employees	1,290	1,900
Payables to social security and public health insurance institutions	520	821
Other direct tax liabilities	365	572
Payables from fixed-term operations	0	0
Other payables	50,616	295,669
Estimated payables	5,592	2,141
Total equity and liabilities	56,515,671	60,945,678

THE FINANCIAL MARKET GUARANTEE SYSTEM

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Year ended 31 December 2016

Profit and Loss Account for the year ended 31 December 2016
(CZK '000)

	Activity		
	Main	Economic	Total
A. Expenses			
I. Consumed purchases and purchased services	13,809	0	13,809
1. Consumption of material	559	0	559
3. Repairs and maintenance	41	0	41
4. Travel expenses	906	0	906
5. Representation expenses	188	0	188
6. Other services	12,115	0	12,115
III. Personnel costs	14,697	0	14,697
10. Wages and salaries	10,776	0	10,776
11. Statutory social security insurance	3,341	0	3,341
13. Statutory social expenses	393	0	393
14. Other social expenses	187	0	187
IV. Taxes and fees	72	0	72
V. Other expenses	6,019	0	6,019
19. Foreign exchange losses	19	0	19
22. Sundry other expenses	6,000	0	6,000
VI. Amortisation/depreciation and assets sold, creation and use of provisions and adjustments	5,748,047	0	5,748,047
23. Amortisation of intangible and depreciation of tangible fixed assets	600	0	600
25. Securities and shares sold	5,747,447	0	5,747,447
Total expenses	5,782,644	0	5,782,644

THE FINANCIAL MARKET GUARANTEE SYSTEM

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Year ended 31 December 2016

(CZK '000)

	Activity		
	Main	Economic	Total
B. Revenues			
IV. Other revenues	197,524	0	197,524
5. Contractual penalties and late payment interest, Other fines and penalties	185	0	185
7. Interest revenue	194,454	0	194,454
8. Foreign exchange gains	2	0	2
10. Sundry other revenues	2,883	0	2,883
V. Revenues from assets sold	5,697,571	0	5,697,571
12. Revenues from securities and shares sold	5,697,571	0	5,697,571
Total revenues	5,895,095	0	5,895,095
C. Profit/loss before tax	112,451	0	112,451
D. Profit/loss after tax	112,451	0	112,451

In the sense of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Guarantee System performed only the main activities for which it was established, i.e. activities in deposit insurance (including the management of the Deposit Insurance Fund) and in the management of the Crisis Resolution Fund. The Guarantee System did not perform any economic activity within the meaning of Section 5a (2) of the Decree (additional, secondary, business or other activity outside the main activity).

THE FINANCIAL MARKET GUARANTEE SYSTEM

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Year ended 31 December 2016

1 General Information

The Financial Market Guarantee System is a legal person governed by public law, which was under its original name the Deposit Insurance Fund, established by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

The identification number of the Financial Market Guarantee System is 497 10 362. Based on Act No. 586/1992 Coll., on Income Taxes, as amended, the income of the Financial Market Guarantee System is exempt from income tax. The registered office of the Financial Market Guarantee System is Prague 1, Týn 639/1.

Membership of the Board of Directors in 2016 was as follows:

Name	Position
Dušan Hradil	Chairman
Karel Bauer	Vice-Chairman
Ondřej Landa	Member
Josef Tauber	Member
Radek Urban	Member

Under legislation effective from 1 January 2016, the Management Board of the Financial Market Guarantee System is its statutory body. The Board of Directors remains the supreme body of the Financial Market Guarantee System with the powers listed in Section 201 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution.

Membership of the Management Board in 2016 was as follows:

Name	Position
Renáta Kadlecová	Chairperson
Tomáš Hejduk	Member
Roman Kahánek	Member

The mission of the Financial Market Guarantee System is the operation of the deposit insurance system in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq., Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq. of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution). By performing these activities, the Financial Market Guarantee System contributes to the stability of the financial market.

THE FINANCIAL MARKET GUARANTEE SYSTEM

Financial Statements

Year ended 31 December 2016

1.1 Transformation of the Deposit Insurance Fund into the Financial Market Guarantee System

With effect from 1 January 2016, based on Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution (the "AFCPR"), the Deposit Insurance Fund was transformed into the Financial Market Guarantee System. This was not a "transformation" of a legal person within the meaning of Section 174 et seq. of Act No. 89/2012 Coll., the Civil Code (i.e. in the sense of a merger, division or change of legal form), but only a "change" consisting in particular of: a) a name change (Section 252 of the AFCPR), b) a change to the organisational structure (Section 199 et seq. of the AFCPR - a change to the statutory body, a listing of the powers of the Board of Directors, etc. and c) an extension of the scope of activity (Section 198 of the AFCPR, on the management of assets in the Crisis Resolution Fund). We thus cannot speak of legal succession because there has been no transition of rights and obligations, and the legal person (holder of rights and obligations) has been retained (the same identification number).

1.2 Managed Funds (Nonentities)

In view of the retention of continuity of legal personality (the original Deposit Insurance Fund has changed to the Financial Market Guarantee System), while the funds managed by the Financial Market Guarantee System (the Deposit Insurance Fund and the Crisis Resolution Fund) have no legal personality (Section 198 (4) of the AFCPR), it is necessary to differentiate the Deposit Insurance Fund until 31 December 2015 (legal personality, change to the Financial Market Guarantee System) and the Deposit Insurance Fund from 1 January 2016 (nonentity made up of part of the assets of the Financial Market Guarantee System).

While the new nonentity Deposit Insurance Fund was de facto established by law on 1 January 2016 (see Section 254 of the AFCPR on allocation of assets and debts to the Deposit Insurance Fund), the Crisis Resolution Fund was established on the basis of Section 209 (1) of the AFCPR through the Statute of the Financial Market Guarantee System on 12 January 2016 (Article 5 of the Financial Market Guarantee Fund Statute).

1.3 Assets placed in funds

Section 198 (2) of the AFCPR states that the Financial Market Guarantee System manages assets created by the Deposit Insurance Fund, the Crisis Resolution Fund and other assets of the Financial Market Guarantee System. From the legal point of view, therefore, they are always assets of the Financial Market Guarantee System, located a) in the Deposit Insurance Fund, b) in the Crisis Resolution Fund, c) outside of both funds (i.e. not a model of an investment company - mutual fund, when the assets in the mutual fund are not the assets of the investment company).

From the accounting point of view, the Financial Market Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund are three separate accounting units, while the assets constituted by the Deposit Insurance Fund, the assets constituted by the Crisis Resolution Fund and other assets of the Financial Market Guarantee System are kept separately in asset and accounting terms (Section 205 and Article 198 (2) of the AFCPR). Each of the accounting units has its own financial statements and their preparation is ensured by the Financial Market Guarantee System.

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While as of the date of establishment of the Crisis Resolution Fund there were no assets in it (its opening balance did not need to be audited), as of 1 January 2016 existing assets and debts of the original Deposit Insurance Fund related to the insurance of deposit receivables (Section 254 of the AFCPR) were allocated to the Deposit Insurance Fund, in particular:

- bank contributions to the deposit insurance system,
- receivables of beneficiaries resulting from compensation for insured receivables from deposits,
- proceeds from investing the resources of the original Deposit Insurance Fund,
- assets and debts in connection with the procurement of the necessary resources on the market, subsidies, repayable financial assistance (as of 1 January 2016 there were no such debts),
- receivables of the original Deposit Insurance Fund,
- resources on the bank accounts of the original Deposit Insurance Fund to ensure that the opening balance sheet of the new Deposit Insurance Fund is balanced.

For this reason, the opening balance sheet of the Deposit Insurance Fund was subject to verification by an auditor. There were no other assets or debts than those listed above in the original Deposit Insurance Fund.

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2 Accounting Policies

2.1 Bookkeeping

The Financial Market Guarantee System provides accounting for its own management and the management of the Deposit Insurance Fund and the Crisis Resolution Fund (the Deposit Insurance Fund and the Crisis Resolution Fund collectively the "Funds") pursuant to Act No. 563/1991 Coll., on Accounting, as amended (the "Act on Accounting"), Implementing Decree No. 504/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units whose main business activity is not commercial business, if they use double-entry bookkeeping, as amended (the "Decree") and other legislation governing bookkeeping, and in accordance with the accounting methods specified therein.

The Financial Market Guarantee System and the Funds managed by it are separate accounting units ("accounting units").

The Financial Market Guarantee System records the status and movement of assets and liabilities, costs and revenues, and profit or loss separately from the subject matter of its and other Funds' accounts. The bookkeeping for the subject of accounting is performed in ledgers kept separately for each accounting unit in a way that allows for the preparation of financial statements for each accounting unit.

The Financial Market Guarantee System provides for the verification of the Financial Market Guarantee System annual report (which describes the facts that are also reflected in the financial statements of the Financial Market Guarantee System and the individual managed Funds, and which is in all material respects consistent with the relevant financial statements of the Financial Market Guarantee System and the individual managed Funds) and the preparation of an auditor's report on the verification of the Financial Market Guarantee System annual report.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System performs the management of the Funds and that the Financial Market Guarantee System is entitled and bound by the legal relationships. From the point of view of the accounting, all the accounting documents (as well as the electronic registry service) will be recorded in the Financial Market Guarantee System.

The Financial Market Guarantee System Statute states that the Financial Market Guarantee System manages the Funds and that all activity is tied to the management of the Funds. In terms of the bookkeeping, all expenses, revenues, costs, income, receivables and payables are items for the individual Funds. The Financial Market Guarantee System, as a legal person, maintains all these accounting cases in its accounts and materially assigns them to the individual Funds.

2.2 System of Accounting and Retention of Accounting Documents

Accounting units that maintain full accounts use double-entry accounting for the status and movement of property and other assets, liabilities, including debts and other liabilities, costs and revenues, and profit or loss.

The accounting units use double-entry accounts for facts that are the subject of their accounts until the period to which they relate in time and in fact.

The Financial Market Guarantee System accounting period is the calendar year.

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Year ended 31 December 2016

The accounting units have kept accounts since 1 January 2016, with the exception of the Crisis Resolution Fund, which has been keeping accounts since its establishment on 12 January 2016.

The accounting units keep one set of accounts per accounting unit as a whole.

The accounting units maintain accounts as a set of accounting records using technical means, data carriers and software. An accounting record is data that are a record of all the facts relating to the maintenance of the accounts. Accounting units must record every fact relating to the maintenance of accounts exclusively through accounting records. Individual accounting records may be grouped into aggregate accounting records; such accounting records are in particular accounting documents, accounting entries, ledgers, the depreciation plan, inventory listings, accounting plans, financial statements and the annual report.

The accounting units maintain their accounts in the Czech currency.

The accounting units maintain their accounts in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled.

The accounting units capture the facts that are the subject of the accounts ("accounting cases") through accounting documents.

The accounting units record accounting cases in ledgers ("accounting entries") only on the basis of probative accounting records.

The accounting units keep accounts in such a way that the financial statements prepared on their basis are comprehensible and provide a true and fair view of the accounting unit's accounts and financial situation.

The accounting units keep their accounts in a correct, complete, probative, comprehensible, clear manner that ensures the continuity of the accounting records.

The accounting units keep their accounts in a way that ensures the continuity of the accounting records so that the accounting unit complies with its obligations relating to their retention under the Act on Accounting.

The Financial Market Guarantee System assigns another person to process the accounts of the accounting units on the basis of a contractual relationship in accordance with Section 5 of the Act on Accounting.

THE FINANCIAL MARKET GUARANTEE SYSTEM

Financial Statements

Year ended 31 December 2016

2.3 Scope of Bookkeeping, Accounting Documents, Accounting Records and Ledgers

The accounting units maintain their accounts in full scope.

The accounting documents are probative accounting records that must include:

- identification of the accounting document,
- the content of the accounting case and its participants,
- the monetary amount or information on the price per unit of measurement and an indication of the quantity,
- the moment of preparation of the accounting document,
- the moment of performance of the accounting case, if not identical to the moment of the preparation of the accounting document,
- the signature record of the person responsible for the accounting case and the signature record of the person responsible for its posting.

The accounting units prepare accounting documents without undue delay.

The accounting entries are accounting records in ledgers.

The accounting units account in the following ledgers:

- in the journal(s) in which the accounting entries are organized in terms of time (chronologically) and which show the accounting of all the accounting cases in the accounting period,
- in the main ledger in which the accounting entries are organized on a factual (systematic) basis,
- in the books of analytical accounts detailing the accounting records of the main ledger.

2.4 Plan of Accounts

The accounting units prepare a plan of accounts for each accounting period within the meaning of the guideline chart of accounts, accounting methods, organization and marking of the items of financial statements, and the content definition of those items determined in the Decree.

During the accounting period, an accounting unit may supplement the plan of accounts.

The amounts in the analytical accounts books must correspond to the relevant aggregate cash amounts of the turnover or balance of the synthetic accounts to which these accounts are connected.

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Financial Statements

Year ended 31 December 2016

2.5 Financial Statements, Accounting Audit, Annual Report, Reporting Method

Before the preparation of the financial statements, the accounting unit performs an inventory.

The financial statements are an inseparable whole and comprise:

- Balance Sheet,
- Profit and Loss Account,
- Notes.

The Financial Market Guarantee System prepares an annual report.

The Financial Market Guarantee System publishes the annual report after it is audited on its website, and archives the original in paper form in accordance with the Archiving and Shredding Rules.

2.6 Storage of Accounting Documents

The Executive Director of the Financial Market Guarantee System is responsible for the organization of the storage of accounting documents, and may designate the person responsible for the execution of the storage of the accounting documents. The archiving of accounting documents is performed according to the Archiving and Shredding Rules.

2.7 Accounting Methodological Guidelines

The accounting units, to comply with Directive No. 22 - Bookkeeping, in accordance with the Accounting Act and other statutory regulations, prepare accounting methodological guidelines.

The accounting methodological guidelines are approved by the Financial Market Guarantee System Board of Directors.

The accounting methodological guidelines will be updated by the accounting units if there is a change in legislation.

The accounting methodological guidelines relating to the determination of a timetable for performing work under Directive No. 22 - Bookkeeping (e.g. a schedule for the preparation of financial statements) will be updated annually by the accounting unit.

2.8 Assignment Procedures for Accounting Cases

2.8.1 Accounting Cases Directly Assignable to the Funds

- 2.8.1.1 These cases are charged by the Financial Market Guarantee System and directly assigned - posted - to the relevant Fund accounts.

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Year ended 31 December 2016

2.8.1.2 These cases include, in particular, received contributions to the Funds and the investment of the financial reserves. Individual bank accounts are set up for the allocation of the contributions to the individual Funds. These accounts may also be used for investing assets in the individual Funds, unless separate bank accounts are established for this purpose. Directly assignable accounting cases to the Funds also include other accounting cases on these bank accounts, such as interest accrued or fees related to the management of these accounts.

2.8.2 Other Accounting Cases (for example, received invoices for rent, legal services, accounting, wages, depreciation, etc.)

2.8.2.1 Directly assignable accounting documents for individual funds that arise from invoicing (e.g. portfolio management fees), or there is another possibility of direct assignment (for example, an annex with a breakdown of the purpose of legal representation by Fund for legal services). The Financial Market Guarantee System attributes and charges to the relevant Fund accounts according to the supporting criteria established from the accounting case.

2.8.2.2 If common accounting cases cannot be assigned to individual Funds under paragraph 2.8.2.1, this assignment will be made at a ratio determined as follows:

- a) To calculate the ratio of costs for managing the individual Funds, the cost-to-work ratio method is used for each Fund in the staff time sheets. Staff at the Financial Market Guarantee System will prepare time sheets on a monthly basis.
- b) The ratio of the activities performed for each Fund will be calculated as of 31 December.
- c) The annual ratio calculated under point 2.8.2.2 (b) will be used to account for the advance ratio and will be balanced according to the actual status as of 31 December of the current year.
- d) The annual ratio calculated under point 2.8.2.2 (b) will be used to determine the advance ratio for the following accounting period. This rule will apply for the first time in the 2017 accounting period.

2.8.3 The Financial Market Guarantee System proceeds with the assignment of expenses similarly to in paragraphs 2.8.1 and 2.8.2, for example, when paying for the purchase of technical equipment, when paying an advance for a future performance, when calculating anticipated costs or income, when paying a deposit or similar performances.

2.9 Providing Advances from the Deposit Insurance Fund and the Crisis Resolution Fund for the Operating Costs of the Financial Market Guarantee System

The Financial Market Guarantee System incurs expenditure connected with the management of the Deposit Insurance Fund and the Crisis Resolution Fund.

Expenditure related to the management of the Crisis Resolution Fund is covered from the operational fund of the Crisis Resolution Fund.

Expenditure related to the management of the Deposit Insurance Fund is covered from operating income, primarily from the investment income of the Deposit Insurance Fund.

The Financial Market Guarantee System shall establish the budget of all accounting units prior to the start of the current year, and at the same time determine the amount of advances to be provided from the Deposit Insurance Fund and the Crisis Resolution Fund to cover operating costs. Advances can be provided in instalments.

After the end of the accounting period, advances are settled with actual costs.

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Receivables and payables between the Deposit Insurance Fund and the Crisis Resolution Fund from the title of the payment of operating costs are subject to an inventory during the preparation of the financial statements.

2.10 Basic Principles for Preparing the Financial Statements

The financial statements are compiled in accordance with accounting regulations applicable in the Czech Republic and with Czech Accounting Standards for accounting units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for derivatives and securities that are recognised at fair value. The financial statements are compiled on the assumption that the unit is able to continue as a going concern. The amounts in the financial statements and in the notes thereto are rounded to thousands of Czech korunas unless stated otherwise.

2.11 Tangible Fixed Assets

Purchased fixed tangible assets are recognised at acquisition cost, which includes the price for which the assets were acquired and the expenses relating to the acquisition.

The depreciation of fixed tangible assets was calculated using the straight-line depreciation method, based on the estimated useful life of the assets. The depreciation period for personal computers, servers, printers etc. is 3 years. The depreciation period for passenger cars is 5 years. The depreciation period for strongboxes is 10 years.

Repair and maintenance expenses on fixed tangible assets are charged directly to expenses.

Tangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 40,000 per item are charged directly to expenses once they are put into use.

The amortisation of fixed intangible assets was calculated using the straight-line amortisation method over 3 years.

Intangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 60,000 per item are charged directly to expenses once they are put into use.

2.12 Securities and Shares

The Deposit Insurance Fund classifies securities and shares as securities held for trading and securities held to maturity.

Securities held for trading:

Securities held for trading are securities held by the Financial Market Guarantee System for the purpose of transactions aimed at generating profit from price differences in the short term.

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Year ended 31 December 2016

When purchased, securities and shares are recognised at acquisition cost, including transaction expenses. Securities held for trading are measured at fair value. The Financial Market Guarantee System uses the market value of securities as of the balance sheet date to calculate the fair value. The valuation of securities not traded on public markets is based on an expert opinion or a qualified estimate made by the Financial Market Guarantee System.

Interest income from securities held for trading is recognized as Income from short-term assets.

Profit and loss arising from changes in the fair value of securities held for trading are recognised in the profit and loss account in the period in which they arise.

Securities held to maturity:

Securities held to maturity are non-derivative financial assets with a fixed or predefined yield and fixed maturity, which the Financial Market Guarantee System intends and is able to hold until their maturity.

When purchased, securities held to maturity are recognised at acquisition cost, including transaction expenses, and subsequently valued at amortised costs.

Interest income from securities held to maturity includes accrued coupons, discounts and premiums on debt securities held for trading and is recognised as 'Revenue from fixed assets'.

Repo and buy/sell operations:

Collateralized receivables as part of repo and buy-sell transactions are reported under 'Other receivables', including accrued interest. Interest from these transactions is recorded on an accruals basis for the duration of such a transaction and recognised as interest revenue.

2.13 Financial Derivatives

Financial derivatives, including currency transactions, currency and interest rate swaps, are initially recognised in the balance sheet at acquisition cost and subsequently re-valued to their fair values. The fair values are derived from the market prices and from discounted cash flow models.

Derivatives with a positive fair value are recognised as 'Receivables from fixed-term operations'. Derivatives with a negative fair value are recognised as 'Payables from fixed-term operations'.

Changes in the fair value of financial derivatives held for trading are recognised in the profit and loss account, under 'Sundry other revenues' and 'Sundry other expenses'.

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2.14 Foreign Currency Conversions

Transactions carried out in foreign currencies are converted and posted at the exchange rate valid on the transaction date. All monetary assets and liabilities maintained in foreign currencies were converted at the exchange rate published by the Czech National Bank as of the balance sheet date. All foreign exchange gains and losses arising from the conversion of receivables and payables are recognised in the profit and loss account and are reported under 'Foreign exchange gains' and 'Foreign exchange losses'.

Exchange differences of securities that are measured at fair value and maintained in foreign currencies are considered to be part of their fair value measurement.

2.15 Contributions Received from Banks

Contributions to the Deposit Insurance Fund are posted directly to the account of the Funds included in the Deposit Insurance Fund's equity. The amount of contributions is set by the Czech National Bank by 31 May of the year in respect of which contributions are paid, while they are due by 30 June of the given year.

Contributions to the Crisis Resolution Fund are posted to the contribution fund of the Crisis Resolution Fund. The amount of contributions is determined by the Czech National Bank by 1 May of the respective year for which the contributions are paid, and are due within the deadline set by the Czech National Bank.

2.16 Adjustments and Provisions

The Financial Market Guarantee System does not create adjustments, nor does it account for them in accordance with Section 37 (1) of Decree of the Ministry of Finance of the Czech Republic No. 504/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for units that are not primarily engaged in business activity if they use a double-entry accounting system. The Financial Market Guarantee System neither creates nor accounts for provisions in accordance with Section 40 (1) of the above-mentioned Decree.

2.17 Payables to Bank Clients and Receivables Due from Banks that Could Not Meet Their Commitments to Clients

In accordance with a decree of the Ministry of Finance of the Czech Republic and an internal accounting regulation governing accepted contributions, compensation disbursements and related cases, the commencement of disbursement, payables to clients of the banks for which the compensation is being disbursed, are posted by the Financial Market Guarantee System against the reduction in the above-mentioned account of the funds included in equity. A receivable due from banks that could not meet their commitments to clients is posted in the same amount against the funds account in equity.

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2.18 Equity/Funds

Based on the decision of the Board of Directors of the Financial Market Guarantee System, the financial result (profit or loss from the current year) is transferred to Retained earnings / Retained losses from prior years or to Funds within the framework of the own resources of the Financial Market Guarantee System. The subsequent transfer of retained earnings from prior years from the Retained earnings / Retained losses from prior years to Funds is possible if the Board of Directors of the Financial Market Guarantee System so decides.

2.19 Use of Estimates

The preparation of the financial statements requires that the Financial Market Guarantee System uses estimates and assumptions that influence the recognised values of assets and liabilities as of the date of the financial statements, and the recognised amounts of revenues and expenses for the reporting period. The Financial Market Guarantee System has defined these estimates and assumptions on the basis of all the relevant information available to the Deposit Insurance Fund. Nevertheless, the inherent nature of estimates means that the actual future values may differ from these estimates.

2.20 Subsequent Events

The impact of events that occurred between the balance sheet date and the date of preparation of the financial statements is reported in the accounting reports if such events provide additional information about the facts that existed as of the balance sheet date.

In the event that material events reflecting facts that occurred after the balance sheet date occurred between the balance sheet date and the date of preparation of the financial statements, the consequences of these events are described in the notes to the financial statements but are not posted to the financial statements.

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Financial Statements

Year ended 31 December 2016

3 Additional Information on the Balance Sheet and Profit and Loss Account**3.1** Other receivables

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Receivables from compensation disbursed	30,069,097	27,722,952
Receivables from repo operations	0	240,000
Receivables from duplicate payments	14,672	14,672
Receivables from coupons	1,002	14,282
Other receivables	2,179	234
Receivables from unpaid contributions	3,044	3,044
Other receivables – total	30,089,994	27,995,184

Receivables from compensation disbursed include receivables due from banks and cooperative credit unions that failed to meet their commitments to clients; they amounted to CZK 30,069,097,000 as of 31 December 2016 (as of 1 January 2016: CZK 27,722,952,000, of which CZK 45,757,000 was a receivable based on funds provided to a financial institution in order to disburse compensation that has however not yet been disbursed).

No adjustments were created for these receivables based on a measure of the Ministry of Finance of the Czech Republic (see note 2.16.).

If there were an option to create an adjustment, the Financial Market Guarantee System would create an 89% adjustment for the Receivables from compensation for deposits disbursed.

Other receivables include a receivable from the Deposit Insurance Fund against the Crisis Resolution Fund to cover the costs connected with the management of the Crisis Resolution Fund of CZK 1,945,000.

3.2 Debt Securities Held to Maturity**Debt securities held to maturity at amortised costs:**

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Debt securities held to maturity	3,576,545	3,516,518

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2016. (the same as of 1 January 2016). The value of the bonds in market terms reached CZK 4,123,163,000 as of 31 December 2016 (as of 1 January 2016 the value was CZK 4,235,810,000).

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3.3 Securities Held for Trading

Fair value of securities held for trading:

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Debt securities held for trading	758,450	8,212,961

Czech government bonds made up 100% of the value of securities held for trading as of 31 December 2016 (92% as of 1 January 2016, with treasury bills accounting for the rest).

The decrease in the volume of debt securities for trading is due to a change in the investment strategy, when in 2016 the majority of securities were sold and the funds were mainly invested in repo operations with government treasury bills or CNB vouchers.

3.4 Statement of Changes on the Funds Account

The Financial Market Guarantee System has no registered capital. Its equity consists of a funds account and its profit/loss.

Statement of changes on the funds account:

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Deposit Insurance Fund:		
Opening balance	53,147,748	49,252,117
Contributions received (see note 3.6.)	2,055,539	4,417,474
New receivables due from banks in insolvency and liquidation	3,534,849	3,317
Written-off receivables and payables from compensation disbursements	-940,940	-522,461
Compensation disbursement	-3,534,849	-3,317
Additional payments and refunds from settlement, other receivables due from banks	752	618
Closing balance	54,263,099	53,147,748

In 2016, the Financial Market Guarantee System commenced the disbursement of compensation for deposits to clients of ERB Bank, a. s., and continued with the disbursement of compensation for deposits to clients of Metropolitní spořitelní družstvo and WPB Capital, spořitelní družstvo.

(CZK '000)	As of 31 December 2016	As of 12 January 2016
The Crisis Resolution Fund:		
Opening balance	0	0
Contributions received (see note 3.6.)	2,958,882	0
Closing balance	2,958,882	0

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3.5 Liabilities

Payables from compensation disbursements as of 31 December 2016 were CZK 293,692,000 (1 January 2016: CZK 50,598,000). Payables from compensation disbursements are posted in Liabilities in Part B.III. - Other payables.

Payables from social security and health insurance as of 31 December 2016 were CZK 821,000 (1 January 2016: CZK 520,000), of which CZK 456,000 (1 January 2016: CZK 276,000) is social security payables and CZK 365,000 (1 January 2016: CZK 244,000) is health insurance payables.

Tax liabilities amounted to CZK 572,000 (1 January 2016: CZK 365,000)

None of these payables were overdue.

3.6 Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.15.).

(CZK '000)	2016
Contributions received from banks	5,014,421

In 2016, bank contributions to the Deposit Insurance Fund for the 4th quarter of 2015 totalled CZK 1,176,107,000 according to their payment system valid until the end of 2015. Based on the amendment to the Act on Banks No. 375/2015 Coll., by 30 June 2016 bank contributions for 2016 totalled CZK 879,432,000. In connection with the establishment of the Crisis Resolution Fund, at the turn of 2016, banks and selected investment firms paid contributions to this fund for 2016 totalling CZK 2,958,882,000.

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Year ended 31 December 2016

3.7 Summary of Revenues and Expenses of the Current Accounting Period

(CZK '000)	As of 31 December 2016
Revenues:	
Revenues from securities sold	5,697,571
Revenues from short-term financial investment	65,733
Revenues from long-term financial assets	124,941
Interest	3,780
Other revenues (see note 3.8.)	3,070
Total	5,895,095
Expenses:	
Securities sold	-5,747,447
Amortisation of intangible and depreciation of tangible fixed assets	-600
Purchases consumed	-559
Services	-13,250
Personnel costs	-14,697
Taxes and fees	-72
Other expenses (see note 3.8.)	-6,019
Total	-5,782,644

Of the total of CZK 3,780,000 of interest income, revenues from buy/sell and repo operations amounted to CZK 3,706,000.

3.8 Other Revenues and Other Expenses

(CZK '000)	As of 31 December 2016
Revenues:	
Foreign exchange gains	2
Sundry operating revenues - foreign exchange gains from securities transactions and change in the fair value of derivatives held for trading	0
Sundry operating revenues - change in the fair value of securities held for trading	2,883
Other	0
Contractual penalties, default interest and fines	185
Total	3,070

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Expenses:

Foreign exchange losses	-19	-9
Sundry other expenses - foreign exchange losses from securities transactions and change in the fair value of derivatives held for trading	0	-552
Sundry other expenses - change in the fair value of securities held for trading	-3,624	-46,384
Other	-2,376	-1,569
Total	-6,019	-48,514

The profit for 2016 of CZK 112,451,000, which represents profit of the Deposit Insurance Fund of CZK 114,396,000 less the loss of the Crisis Resolution Fund of CZK 1,945,000, is proposed for transfer to retained earnings from prior years.

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2016 amounted to CZK 10,776,000.

In 2016, the auditor Ernst & Young, Audit, s. r. o. was reimbursed for the statutory audit of the financial statements for 2015 and for the statutory audit of the opening balance sheets of the Financial Market Guarantee System and the Deposit Insurance Fund as of 1 January 2016, totalling CZK 315,000.

In 2016, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 78,000 in connection with liability insurance for the members of the Board of Directors and the members of the Management Board for damage caused when exercising their functions.

3.9 Reimbursement of the Costs of the Financial Market Guarantee System

Pursuant to Section 207 (2) of the AFCPR, the Financial Market Guarantee System has the right to the reimbursement of costs incurred in connection with the management of the Deposit Insurance Fund and the Crisis Resolution Fund, and this from the Deposit Insurance Fund and from the operational fund of the Crisis Resolution Fund. In 2016, the Financial Market Guarantee System only incurred costs connected with the management of the two Funds.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2016 totalled CZK 30,633,000, of which CZK 28,688,000 was expenses related to the management of the Deposit Insurance Fund and CZK 1,945,000 expenses related to the management of the Crisis Resolution Fund.

Due to the lack of resources in the operational fund of the Crisis Resolution Fund, costs related to the management of the Crisis Resolution Fund amounting to CZK 1,945,000 in accordance with Section 207 (2) of the AFCPR were paid from resources from the Deposit Insurance Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund against the Crisis Resolution Fund, which will be paid to the Deposit Insurance Fund from the operational fund of the Crisis Resolution Fund when there are sufficient resources in this operational fund.

Costs related to the management of the Deposit Insurance Fund totalling CZK 28,688,000 were reimbursed to the Financial Market Guarantee System from resources on the Deposit Insurance Fund.

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3.10 Litigations

The following three actions were filed against the original Deposit Insurance Fund in 2010 and 2011:

Claimant TALIAELLA HOLDINGS LIMITED (previously Conroe Consulting Services Limited)

On 18 December 2010, an action was filed against the Deposit Insurance Fund by Conroe Consulting Services Limited, registered office at 46/2, South Street, Valleta VLT 1101 Malta, **seeking the payment of CZK 1,561,731,947 including accessions. The action was filed with the District Court for Prague 1. The claimant is seeking the awarding of a claim consisting of damages in the above-mentioned amount that allegedly arose from the defendant, i.e. the Deposit Insurance Fund, failing to disburse**, in accordance with Act No. 443/2006 Coll. (Act on Compensation), as amended until 2 March 2007, **compensation for insured deposits to clients of Kreditní banka Plzeň, a.s. within the statutory period.** At the time, the Deposit Insurance Fund proceeded in line with the Act on Banks and failed to disburse the compensation because the Czech National Bank - in agreement with the Ministry of Finance of the Czech Republic - had extended the period for compensation disbursement. The relevant part of the above-mentioned Act on Compensation was subsequently repealed by a ruling of the Constitutional Court of the Czech Republic dated 15 February 2007, effective from 2 March 2007. On 2 May 2012, the District Court for Prague 1 rendered judgment with reference 18 C 364/2010-80 that the application for the payment of CZK 1,561,731,947, including accessions, was rejected and the claimant was obliged to reimburse the defendant for the costs of the proceedings. The claimant appealed against this judgment and subsequently supplemented its appeal. In addition, based on an agreement to assign the receivable, the original claimant, Conroe Consulting Services Limited, was replaced by TALIAELLA HOLDINGS LIMITED.

At the hearing held on 27 January 2014, the court of appeal rejected the claimant's appeal against the first-instance judgment and awarded the costs of the proceedings in favour of the Deposit Insurance Fund. **The written version of the judgment was delivered on 25 April 2014. Legal force clause was marked to this judgement on 6 February 2015. On 20 August 2015, the District Court for Prague 1 issued a European Enforcement Order - the certificate confirming a judgement. At the current time the costs of the proceedings are being sought from the claimant.**

Claimant ASSETWISE LIMITED

On 30 August 2011, an action was filed with the Municipal Court in Prague against the Deposit Insurance Fund by ASSETWISE LIMITED, ID No.: HE 284286, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, P. C. 6042 Larnaca, the Republic of Cyprus, **seeking the payment of CZK 1,406,963,367, including accessions. The claim is based on the provisions of part two of Article III (4) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking financial compensation.** The High Court in Prague subsequently decided in terms of the material jurisdiction that district courts had jurisdiction to hear and decide the case at the first instance. The proceedings were suspended by court ruling of 9 December 2013 until the appeal proceedings in the case VALSPRING HOLDINGS LIMITED vs. the Deposit Insurance Fund (see below) were finally concluded. **A ruling by the Municipal Court in Prague, reference 97 Co 254/2014-126, dated 16 June 2014, revoked the ruling that had suspended the proceedings. Upon the claimant's proposal, the District Court for Prague 1 ordered the disputing parties to participate in person in the first meeting with the mediator. The first meeting with the mediator took place on 3 November 2015, but no out-of-court agreement was reached. The defendant notified this fact to the District Court for Prague 1 and suggested that the court should continue the proceedings, i.e. deal with the case at hand. A court hearing in the case was scheduled for 30 March 2016 at the District Court for Prague 1. On 30 March 2016, the District Court for Prague 1 decided that the action for the payment of CZK 1,406,963,367, including accessions, was rejected and that the claimant was obliged to reimburse the defendant for the costs of the proceedings. On 14 June 2016, the claimant submitted an appeal to the Municipal Court in Prague. The defendant made a statement on this appeal on 22 July 2016.**

THE FINANCIAL MARKET GUARANTEE SYSTEM

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In this case we have to state that these proceedings are based on the assessment of a legal issue / legal issues relating to the process of extending the period for disbursement commencement defined by the Act on Additional Compensation, and on the assessment of the claimant's right to bring proceedings. Another assessment criterion is the impact of constitutional law regulations on future legal relations after the above-mentioned law was repealed. The Deposit Insurance Fund's position is supported by the fact stated above that in several litigations the courts deciding the cases ruled that the process of extending the period for commencing the disbursement was de iure free of any defects, i.e. that the Deposit Insurance Fund had never delayed making its compensation disbursements. In addition, the rationale provided by the courts when deciding on other cases can lead to the opinion that the Act on Additional Compensation could never stand in the structure of existing legislation due to its evident legislative defects, which makes the Deposit Insurance Fund believe that claims for performance cannot be made now on the basis of this repealed Act. The Deposit Insurance Fund has numerous legal arguments to support its opinion and consequently its potential success in this case. Moreover, as mentioned above, the claimant's cause of action was dismissed (the final decision on the dismissal is however still pending) by the District Court for Prague 1.

Claimant MERKURIO PANAMA S.A. (previously VALSPRING HOLDINGS LIMITED)

On 30 August 2011, an action was filed with the Municipal Court in Prague against the Deposit Insurance Fund by VALSPRING HOLDINGS LIMITED, ID No.: HE 235682, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, Post Code 6042, Larnaca, the Republic of Cyprus, **seeking the payment of CZK 1,621,470,327, including accessions. This claim is based on the provisions of part two of Article III (1) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking an additional compensation payment.** The defendant gave its statement on the application. The claimant only gave its statement on the material jurisdiction of the court. The High Court in Prague subsequently decided in terms of the material jurisdiction that district courts had jurisdiction to hear and decide the case at the first instance. **By its judgment of 29 May 2013, the District Court for Prague 1 rejected the application in full and awarded the costs of the proceedings to the Deposit Insurance Fund. The claimant appealed this judgment, and the defendant gave its statement on the appeal. The hearing before the court of appeal was adjourned ad infinitum in order to change the entity of the claimant. A ruling by the Municipal Court in Prague, reference 53 Co 420/2013-262, dated 15 January 2015, allowed MERKURIO PANAMA S.A., with its registered office in the Republic of Panama, Panama, 50th Avenue, Global Bank Tower, 18th floor, Office 1801, to join the proceedings in lieu of the previous claimant. At a hearing held on 14 September 2015, the court of appeal upheld the first-instance judgement, and awarded the costs of the proceedings in favour of the Deposit Insurance Fund. By consulting the justice.cz information system, it was discovered that the claimant had filed an extraordinary appeal on 25 January 2016. On 16 February 2016, the District Court for Prague 1 sent to the defendant the claimant's extraordinary appeal of 25 January 2016 so that the defendant could comment on the claimant's extraordinary appeal. The defendant commented on the claimant's extraordinary appeal on 26 February 2016. On 26 October 2016, the Supreme Court of the Czech Republic decided to reject the appeal and to grant the defendant compensation for the costs of the appeal proceedings. At the current time the costs of the proceedings are being sought from the claimant.**

All of the three above-mentioned claimants acquired their receivables under agreements to assign a receivable from the assignor Česká pojišťovna, a.s., with its registered office in Prague 1, Spálená 75/16, post code 113 04, ID No.: 452 72 956 which, together with its subsidiary, ALPHA BROKER, a.s., had disbursed compensation to the clients of Kreditní banka Plzeň, a.s. v likvidaci beyond the scope of compensation disbursed by the Deposit Insurance Fund. The Deposit Insurance Fund does not account for provisions and does not believe that it is necessary to block funds for the purposes of the above-mentioned litigations.

In conclusion, it must be stated that the court decisions on the cases initiated by claimant **ASSETWISE LIMITED** and claimant **MERKURIO PANAMA S.A.** cannot be precisely foreseen.

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3.11 Subsequent Events

No events took place after the balance sheet date which could have a material impact on the Financial Market Guarantee System financial statements as of 31 December 2016.

The financial statements were approved by the Board of Directors of the Financial Market Guarantee System.

Prague, 20 June 2017



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager

IX DEPOSIT INSURANCE FUND

INDEPENDENT AUDITOR'S REPORT



(Translation of a report originally issued in Czech.)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the company Garanční systém finančního trhu:

Opinion

We have audited the accompanying financial statements of Fond pojištění vkladů („Fund“) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2016, and the income statement, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Fond, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2016, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund and the company Garanční systém finančního trhu in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to the matter described in Note 2.16 to the financial statements, which states that the Fund prepares its financial statements and maintains its accounting records in accordance with Decree No. 504/2002 Coll., as amended, applicable to entities whose principal activity does not involve business.

Pursuant to the accounting legislation in this Decree, the Fund recognizes neither impairment allowances nor provisions. For the levels of provisions and allowances that the Fund would have recognized had it been allowed by the Decree, refer to Notes 3.1.

The Fund uses all these internal policies in the consistency with the prior years.

Our opinion is not modified in respect of this matter.

Responsibilities of the Statutory Body of the company Garanční systém finančního trhu for the Financial Statements

The Statutory Body of the company Garanční systém finančního trhu is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Statutory Body of the company Garanční systém finančního trhu determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, the Statutory Body of the company Garanční systém finančního trhu is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body of the company Garanční systém finančního trhu either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control and of the company Garanční systém finančního trhu internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body of the company Garanční systém finančního trhu.
- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the Statutory Body of the company Garanční systém finančního trhu regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401

Roman Hauptfleisch
Roman Hauptfleisch, Auditor
License No. 2009

20 June 2017
Prague, Czech Republic

FINANCIAL STATEMENTS

The Deposit Insurance Fund

Date of financial statements:	31/12/2016
Date of preparation of financial statements:	27/4/2017

Balance Sheet as of 31 December 2016 (CZK '000)

ASSETS	As of 1 January 2016	As of 31 December 2016
A. Total fixed assets	3,517,970	3,578,060
I. Intangible fixed assets – software	3,443	4,045
II. Tangible fixed assets	1,483	1,544
Works of art, objects and collections	46	46
Buildings	0	0
Tangible assets and their sets	1,437	1,498
III. Long-term investments – bonds, debentures and similar securities held to maturity	3,516,518	3,576,545
IV. Total accumulated depreciation and amortisation of fixed assets	-3,474	-4,074
Accumulated amortisation of software	-2,566	-2,885
Accumulated depreciation of buildings	0	0
Accumulated depreciation of machinery and equipment	-908	-1,189
B. Total current assets	52,997,701	54,408,736
II. Total receivables	27,995,200	30,090,005
Operating advances paid	16	11
Other receivables	27,995,184	30,089,994
III. Total current financial assets	25,002,314	24,318,468
Cash in hand	28	47
Stamps and vouchers	104	115
Financial resources on accounts	16,789,221	23,559,856
Debt securities held for trading	8,212,961	758,450
IV. Total other assets	187	263
Prepaid expenses	187	263
Accrued income	0	0
Total assets	56,515,671	57,986,796

The Deposit Insurance Fund

Financial Statements

Year ended 31 December 2016

(CZK '000)

LIABILITIES	As of 1 January 2016	As of 31 December 2016
A. Total equity	56,457,284	57,687,031
I. Equity – funds	53,147,748	54,263,099
II. Total profit/loss	3,309,536	3,423,932
Profit/loss account	×	114,396
Retained earnings / Retained losses from prior years	3,309,536	3,309,536
B. Total liabilities	58,387	299,765
III. Total current payables	58,387	299,765
Payables to suppliers	4	607
Other payables to employees	1,290	1,900
Payables to social security and public health insurance institutions	520	821
Other direct tax liabilities	365	572
Payables from fixed-term operations	0	0
Other payables	50,616	293,724
Estimated payables	5,592	2,141
Total equity and liabilities	56,515,671	57,986,796

The Deposit Insurance Fund

Financial Statements

Year ended 31 December 2016

Profit and Loss Account for the year ended 31 December 2016
(CZK '000)

	Activity		
	Main	Economic	Total
A. Expenses			
I. Consumed purchases and purchased services	13,038	0	13,038
1. Consumption of material	518	0	518
3. Repairs and maintenance	38	0	38
4. Travel expenses	841	0	841
5. Representation expenses	174	0	174
6. Other services	11,467	0	11,467
III. Personnel costs	13,628	0	13,628
10. Wages and salaries	9,993	0	9,993
11. Statutory social security insurance	3,098	0	3,098
13. Statutory social expenses	364	0	364
14. Other social expenses	173	0	173
IV. Taxes and fees	71	0	71
V. Other expenses	5,958	0	5,958
19. Foreign exchange losses	17	0	17
22. Sundry other expenses	5,941	0	5,941
VI. Depreciation and assets sold, creation and use of provisions and adjustments	5,748,004	0	5,748,004
23. Amortisation of intangible and depreciation of tangible fixed assets	557	0	557
25. Securities and shares sold	5,747,447	0	5,747,447
Total expenses	5,780,699	0	5,780,699

The Deposit Insurance Fund

Financial Statements

Year ended 31 December 2016

(CZK '000)

	Activity		
	Main	Economic	Total
B. Revenues			
IV. Other revenues	197,524	0	197,524
5. Contractual penalties and late payment interest, Other fines and penalties	185	0	185
7. Interest revenue	194,454	0	194,454
8. Foreign exchange gains	2	0	2
10. Sundry other revenues	2,883	0	2,883
V. Revenues from assets sold	5,697,571	0	5,697,571
12. Revenues from securities and shares sold	5,697,571	0	5,697,571
Total revenues	5,895,095	0	5,895,095
C. Profit/loss before tax	114,396	0	114,396
D. Profit/loss after tax	114,396	0	114,396

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Guarantee System performed only the main activities for which it was established in terms of the management of the Deposit Insurance Fund. Nor did the Guarantee System perform any economic activity within the meaning of Section 5a (2) of the Decree (additional, secondary, business or other activity outside the main activity).

The Deposit Insurance Fund

Financial Statements

Year ended 31 December 2016

1 General Information

The Deposit Insurance Fund is an accounting unit managed by the Financial Market Guarantee System, which is a legal person governed by public law, which was under its original name the Deposit Insurance Fund, established by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

The identification number of the Financial Market Guarantee System is 497 10 362. Based on Act No. 586/1992 Coll., on Income Taxes, as amended, the income of the Financial Market Guarantee System is exempt from income tax. The registered office of the Financial Market Guarantee System is Prague 1, Týn 639/1.

Under legislation effective from 1 January 2016, the Management Board of the Financial Market Guarantee System is its statutory body. The Board of Directors remains the supreme body of the Financial Market Guarantee System with the powers listed in Section 201 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution.

The mission of the Financial Market Guarantee System is the operation of the deposit insurance system in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq., Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq., Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution). By performing these activities, the Financial Market Guarantee System contributes to the stability of the financial market.

1.1 Transformation of the Deposit Insurance Fund into the Financial Market Guarantee System

With effect from 1 January 2016, based on Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution (the "AFCPR"), the Deposit Insurance Fund was transformed into the Financial Market Guarantee System. This was not a "transformation" of a legal person within the meaning of Section 174 et seq. of Act No. 89/2012 Coll., the Civil Code (i.e. in the sense of a merger, division or change of legal form), but only a "change" consisting in particular of: a) a name change (Section 252 of the AFCPR), b) a change to the organisational structure (Section 199 et seq. of the AFCPR - a change to the statutory body, a listing of the powers of the Board of Directors, etc. and c) an extension of the scope of activity (Section 198 of the AFCPR, on the management of assets in the Crisis Resolution Fund). We thus cannot speak of legal succession because there has been no transition of rights and obligations, and the legal person (holder of rights and obligations) has been retained (the same identification number).

1.2 Managed Funds (Nonentities)

In view of the retention of continuity of legal personality (the original Deposit Insurance Fund has changed to the Financial Market Guarantee System), while the funds managed by the Financial Market Guarantee System (the Deposit Insurance Fund and the Crisis Resolution Fund) have no legal personality (Section 198 (4) of the AFCPR), it is necessary to differentiate the Deposit Insurance Fund until 31 December 2015 (legal personality, change to the Financial Market Guarantee System) and the Deposit Insurance Fund from 1 January 2016 (nonentity made up of part of the assets of the Financial Market Guarantee System).

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While the new nonentity Deposit Insurance Fund was de facto established by law on 1 January 2016 (see Section 254 of the AFCPR on allocation of assets and debts to the Deposit Insurance Fund), the Crisis Resolution Fund was established on the basis of Section 209 (1) of the AFCPR through the Statute of the Financial Market Guarantee System on 12 January 2016 (Article 5 of the Financial Market Guarantee Fund Statute).

1.3 Assets Placed in Funds

Section 198 (2) of the AFCPR states that the Financial Market Guarantee System manages assets created by the Deposit Insurance Fund, the Crisis Resolution Fund and other assets of the Financial Market Guarantee System. From the legal point of view, therefore, they are always assets of the Financial Market Guarantee System, located a) in the Deposit Insurance Fund, b) in the Crisis Resolution Fund, c) outside of both funds (i.e. not a model of an investment company - mutual fund, when the assets in the mutual fund are not the assets of the investment company).

From the accounting point of view, the Financial Market Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund are three separate accounting units, while the assets constituted by the Deposit Insurance Fund, the assets constituted by the Crisis Resolution Fund and other assets of the Financial Market Guarantee System are kept separately in asset and accounting terms (Section 205 and Article 198 (2) of the AFCPR). Each of the accounting units has its own financial statements and their preparation is ensured by the Financial Market Guarantee System.

While as of the date of establishment of the Crisis Resolution Fund there were no assets in it (its opening balance did not need to be audited), as of 1 January 2016 existing assets and debts of the original Deposit Insurance Fund related to the insurance of deposit receivables (Section 254 of the AFCPR) were allocated to the Deposit Insurance Fund, in particular:

- bank contributions to the deposit insurance system,
- receivables of beneficiaries resulting from compensation for insured receivables from deposits,
- proceeds from investing the resources of the original Deposit Insurance Fund,
- assets and debts in connection with the procurement of the necessary resources on the market, subsidies, repayable financial assistance (as of 1 January 2016 there were no such debts),
- receivables of the original Deposit Insurance Fund,
- resources on the bank accounts of the original Deposit Insurance Fund to ensure that the opening balance sheet of the new Deposit Insurance Fund is balanced.

For this reason, the opening balance sheet of the Deposit Insurance Fund was subject to verification by an auditor. There were no other assets or debts than those listed above in the original Deposit Insurance Fund.

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2 **D** Accounting Policies

2.1 **D** Bookkeeping

The Financial Market Guarantee System provides accounting for the management of the Deposit Insurance Fund pursuant to Act No. 563/1991 Coll., on Accounting, as amended (the "Act on Accounting"), Implementing Decree No. 504/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units whose main business activity is not commercial business, if they use double-entry bookkeeping, as amended (the "Decree") and other legislation governing bookkeeping, and in accordance with the accounting methods specified therein.

The Deposit Insurance Fund is a separate accounting unit ("accounting unit").

The Financial Market Guarantee System records the status and movement of assets and liabilities, costs and revenues, and profit or loss of the Deposit Insurance Fund. The accounting for the subject of accounting is performed in ledgers kept separately for the Deposit Insurance Fund in a way that allows for the preparation of financial statements for the Deposit Insurance Fund.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System performs the management of the Deposit Insurance Fund and that the Financial Market Guarantee System is entitled and bound by the legal relationships. From the point of view of the accounting, all the accounting documents (as well as the electronic registry service) will be recorded in the Financial Market Guarantee System.

The Financial Market Guarantee System Statute states that the Financial Market Guarantee System manages the Deposit Insurance Fund and the Crisis Resolution Fund (the "Funds") and that all activity is tied to the management of the Funds. In terms of the bookkeeping, all expenses, revenues, costs, income, receivables and payables are items for the individual Funds. The Financial Market Guarantee System, as a legal person, maintains all these accounting cases in its accounts and materially assigns them to the individual Funds.

2.2 **D** System of Accounting and Retention of Accounting Documents

The Financial Market Guarantee System maintains full accounts for the Deposit Insurance Fund, uses double-entry accounting for the status and movement of property and other assets, payables, including debts and other liabilities, costs and revenues, and profit or loss.

It uses double-entry records for facts that are the subject of their accounts until the period to which they relate in time and in fact.

The accounting period for the Deposit Insurance Fund is the calendar year.

The Deposit Insurance Fund's bookkeeping has been maintained since 1 January 2016.

The Financial Market Guarantee System maintains a single bookkeeping for the Deposit Insurance Fund for the accounting unit as a whole.

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The bookkeeping is maintained as a set of accounting records using technical means, data carriers and software. An accounting record is data that are a record of all the facts relating to the maintenance of the accounts. Accounting units must record every fact relating to the maintenance of accounts exclusively through accounting records. Individual accounting records may be grouped into aggregate accounting records; such accounting records are in particular accounting documents, accounting entries, ledgers, the depreciation plan, inventory listings, accounting plans, financial statements and the annual report.

The bookkeeping is maintained in monetary units of the Czech currency.

The bookkeeping is maintained in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled.

Facts that are the subject of the accounts (“accounting cases”) are captured through accounting documents.

Accounting cases are recorded in ledgers (“accounting entries”) only on the basis of probative accounting records.

Bookkeeping is kept in such a way that the financial statements prepared on their basis are comprehensible and provide a true and fair view of the accounting unit’s accounts and financial situation.

The bookkeeping is kept in a correct, complete, probative, comprehensible, clear manner that ensures the continuity of the accounting records.

The bookkeeping is kept in a way that ensures the continuity of the accounting records so that the accounting unit complies with its obligations relating to their retention under the Act on Accounting.

The Financial Market Guarantee System assigns another person to process the accounts of the accounting unit on the basis of a contractual relationship in accordance with Section 5 of the Act on Accounting.

2.3 **Scope of Bookkeeping, Accounting Documents, Accounting Records and Ledgers**

The Financial Market Guarantee System maintains separate bookkeeping for the Deposit Insurance Fund in full scope.

The accounting documents are probative accounting records that must include:

- identification of the accounting document,
- the content of the accounting case and its participants,
- the monetary amount or information on the price per unit of measurement and an indication of the quantity,
- the moment of preparation of the accounting document,
- the moment of performance of the accounting case, if not identical to the moment of the preparation of the accounting document,
- the signature record of the person responsible for the accounting case and the signature record of the person responsible for its posting.

The accounting documents are prepared without undue delay.

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The accounting entries are accounting records in ledgers.

They are posted in the following ledgers:

- in the journal(s) in which the accounting entries are organized in terms of time (chronologically) and which show the accounting of all the accounting cases in the accounting period,
- in the main ledger in which the accounting entries are organized on a factual (systematic) basis,
- in the books of analytical accounts detailing the accounting records of the main ledger.

2.4 Plan of Accounts

The accounting unit prepares a plan of accounts for each accounting period within the meaning of the guideline chart of accounts, accounting methods, organization and marking of the items of financial statements, and the content definition of those items determined in the Decree.

During the accounting period, the plan of accounts may be supplemented.

The amounts in the analytical accounts books must correspond to the relevant aggregate cash amounts of the turnover or balance of the synthetic accounts to which these accounts are connected.

2.5 Financial Statements, Accounting Audit

Before the preparation of the financial statements, an inventory is performed.

The financial statements are an inseparable whole and comprise:

- Balance Sheet,
- Profit and Loss Account,
- Notes.

2.6 Storage of Accounting Documents

The Executive Director of the Financial Market Guarantee System is responsible for the organization of the storage of accounting documents, and may designate the person responsible for the execution of the storage of the accounting documents. The archiving of accounting documents is performed according to the Archiving and Shredding Rules.

2.7 Accounting Methodological Guidelines

Accounting methodological guidelines are prepared to comply with Directive No. 22 - Bookkeeping, in accordance with the Accounting Act and other statutory regulations.

The accounting methodological guidelines are approved by the Financial Market Guarantee System Board of Directors.

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The accounting methodological guidelines will be updated by the accounting unit if there is a change in legislation.

The accounting methodological guidelines relating to the determination of a schedule for performing work under Directive No. 22 - Bookkeeping (e.g. a schedule for the preparation of financial statements) will be updated annually by the accounting unit.

2.8 Assignment Procedures for Accounting Cases

2.8.1 Accounting Cases Directly Assignable to the Funds

2.8.1.1 These cases are charged by the Financial Market Guarantee System and directly assigned - posted - to the relevant Fund accounts.

2.8.1.2 These cases include, in particular, received contributions to the Funds and the investment of the financial reserves. Individual bank accounts are set up for the allocation of the contributions to the individual Funds. These accounts may also be used for investing assets in the individual Funds, unless separate bank accounts are established for this purpose. Directly assignable accounting cases to the Funds also include other accounting cases on these bank accounts, such as interest accrued or fees related to the management of these accounts.

2.8.2 Other Accounting Cases (for example, received invoices for rent, legal services, accounting, wages, depreciation, etc.)

2.8.2.1 Directly assignable accounting documents for individual funds that arise from invoicing (e.g. portfolio management fees), or there is another possibility of direct assignment (for example, an annex with a breakdown of the purpose of legal representation by Fund for legal services). The Financial Market Guarantee System assigns and charges to the relevant Fund accounts according to the supporting criteria established from the accounting case.

2.8.2.2 If common accounting cases cannot be assigned to individual Funds under paragraph 2.8.2.1, this assignment will be made at a ratio determined as follows:

- a) To calculate the ratio of costs for managing the individual Funds, the cost-to-work ratio method is used for each Fund in the staff time sheets. Staff at the Financial Market Guarantee System will prepare time sheets on a monthly basis.
- b) The ratio of the activities performed for each Fund will be calculated as of 31 December.
- c) The annual ratio calculated under point 2.8.2.2 (b) will be used to account for the advance ratio and will be balanced according to the actual status as of 31 December of the current year.
- d) The annual ratio calculated under point 2.8.2.2 (b) will be used to determine the advance ratio for the following accounting period. This rule will apply for the first time in the 2017 accounting period.

2.8.3 The Financial Market Guarantee System proceeds with the assignment of expenses similarly to in paragraphs 2.8.1 and 2.8.2, for example, when paying for the purchase of technical equipment, when paying an advance for a future performance, when calculating anticipated costs or income, when paying a deposit or similar performances.

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2.9 Providing Advances from the Deposit Insurance Fund for the Operating Costs of the Financial Market Guarantee System

The Financial Market Guarantee System incurs costs connected with the management of the Deposit Insurance Fund.

Expenditure related to the management of the Deposit Insurance Fund is covered from operating income, primarily from the investment income of the Deposit Insurance Fund.

The Financial Market Guarantee System shall establish the budget of all accounting units prior to the start of the current year, and at the same time determine the amount of advances to be provided from the Deposit Insurance Fund to cover operating costs. Advances can be provided in instalments.

After the end of the accounting period, advances are settled with actual costs.

Receivables and payables between the managed accounting units from the title of the payment of operating costs are subject to an inventory during the preparation of the financial statements.

2.10 Basic Principles for Preparing the Financial Statements

The financial statements are compiled in accordance with accounting regulations applicable in the Czech Republic and with Czech Accounting Standards for accounting units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for derivatives and securities that are recognised at fair value. The financial statements are compiled on the assumption that the unit is able to continue as a going concern. The amounts in the financial statements and in the notes thereto are rounded to thousands of Czech korunas unless stated otherwise.

2.11 Tangible Fixed Assets

Purchased fixed tangible assets are recognised at acquisition cost, which includes the price for which the assets were acquired and the expenses relating to the acquisition.

The depreciation of fixed tangible assets was calculated using the straight-line depreciation method, based on the estimated useful life of the assets. The depreciation period for personal computers, servers, printers etc. is 3 years. The depreciation period for passenger cars is 5 years. The depreciation period for strongboxes is 10 years.

Repair and maintenance expenses on fixed tangible assets are charged directly to expenses.

Tangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 40,000 per item are charged directly to expenses once they are put into use.

The amortisation of fixed intangible assets was calculated using the straight-line amortisation method over 3 years.

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Intangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 60,000 per item are charged directly to expenses once they are put into use.

2.12 Securities and shares

The Deposit Insurance Fund classifies securities and shares as securities held for trading and securities held to maturity.

Securities held for trading:

Securities held for trading are securities held by the Financial Market Guarantee System for the Deposit Insurance Fund for the purpose of transactions aimed at generating profit from price differences in the short term.

When purchased, securities and shares are recognised at acquisition cost, including transaction expenses. Securities held for trading are measured at fair value. The market value of securities as of the balance sheet date is used to calculate the fair value. The valuation of securities not traded on public markets is based on an expert opinion or a qualified estimate made by the Financial Market Guarantee System.

Interest income from securities held for trading is recognized as Income from short-term assets.

Profit and loss arising from changes in the fair value of securities held for trading are recognised in the profit and loss account in the period in which they arise.

Securities held to maturity:

Securities held to maturity are non-derivative financial assets with a fixed or predefined yield and fixed maturity, where there is the intention and ability to hold until their maturity.

When purchased, securities held to maturity are recognised at acquisition cost, including transaction expenses, and subsequently valued at amortised costs.

Interest income from securities held to maturity includes accrued coupons, discounts and premiums on debt securities held for trading and is recognised as 'Revenue from fixed assets'.

Repo and buy/sell operations:

Collateralized receivables as part of repo and buy-sell transactions are reported under 'Other receivables', including accrued interest. Interest from these transactions is recorded on an accruals basis for the duration of such a transaction and recognised as interest income.

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2.13 Financial Derivatives

Financial derivatives, including currency transactions, currency and interest rate swaps, are initially recognised in the balance sheet at acquisition cost and subsequently re-valued to their fair values. The fair values are derived from the market prices and from discounted cash flow models.

Derivatives with a positive fair value are recognised as 'Receivables from fixed-term operations'. Derivatives with a negative fair value are recognised as 'Payables from fixed-term operations'.

Changes in the fair value of financial derivatives held for trading are recognised in the profit and loss account, under 'Sundry other revenues' and 'Sundry other expenses'.

2.14 Foreign Currency Conversions

Transactions carried out in foreign currencies are converted and posted at the exchange rate valid on the transaction date. All monetary assets and liabilities maintained in foreign currencies were converted at the exchange rate published by the Czech National Bank as of the balance sheet date. All foreign exchange gains and losses arising from the conversion of receivables and payables are recognised in the profit and loss account and are reported under 'Foreign exchange gains' and 'Foreign exchange losses'.

Exchange differences of securities that are measured at fair value and maintained in foreign currencies are considered to be part of their fair value measurement.

2.15 Contributions Received from Banks

Contributions to the Deposit Insurance Fund are posted directly to the account of the Fund included in the Deposit Insurance Fund's equity. The amount of contributions is set by the Czech National Bank by 31 May of the year in respect of which contributions are paid, while they are due by 30 June of the given year.

2.16 Adjustments and Provisions

The Deposit Insurance Fund does not create adjustments, nor does it account for them in accordance with Section 37 (1) of Decree of the Ministry of Finance of the Czech Republic No. 504/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for units that are not primarily engaged in business activity if they use a double-entry accounting system. The Deposit Insurance Fund neither creates nor accounts for provisions in accordance with Section 40 (1) of the above-mentioned Decree.

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2.17 Payables to Bank Clients and Receivables Due from Banks that Could Not Meet Their Commitments to Clients

In accordance with a decree of the Ministry of Finance of the Czech Republic and an internal accounting regulation governing accepted contributions, compensation disbursements and related cases, the commencement of disbursement, payables to clients of the banks for which the compensation is being disbursed, are posted against the reduction in the above-mentioned account of the funds included in equity. A receivable due from banks that could not meet their commitments to clients is posted in the same amount against the funds account in equity.

2.18 Equity/Funds

Based on the decision of the Board of Directors of the Financial Market Guarantee System, the financial result (profit or loss from the current year) is transferred to the Retained earnings / Retained losses from prior years or to the item Funds within the framework of the own resources of the Deposit Insurance Fund. The subsequent transfer of retained earnings from prior years from Retained earnings / Retained losses from prior years to Funds is possible again if the Board of Directors of the Financial Market Guarantee System so decides.

2.19 Use of Estimates

The preparation of the financial statements requires the use of estimates and assumptions that influence the recognised values of assets and liabilities as of the date of the financial statements, and the recognised amounts of revenues and expenses for the reporting period. The Deposit Insurance Fund has defined these estimates and assumptions on the basis of all the relevant information available to the Deposit Insurance Fund. Nevertheless, the inherent nature of estimates means that the actual future values may differ from these estimates.

2.20 Subsequent Events

The impact of events that occurred between the balance sheet date and the date of preparation of the financial statements is reported in the accounting reports if such events provide additional information about the facts that existed as of the balance sheet date.

In the event that material events reflecting facts that occurred after the balance sheet date occurred between the balance sheet date and the date of preparation of the financial statements, the consequences of these events are described in the notes to the financial statements but are not posted to the financial statements.

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3 Additional Information on the Balance Sheet and Profit and Loss Account**3.1** Other receivables

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Receivables from compensation disbursed	30,069,097	27,722,952
Receivables from repo operations	0	240,000
Receivables from duplicate payments	14,672	14,672
Receivables from coupons	1,002	14,282
Other receivables	2,179	234
Receivables from unpaid contributions	3,044	3,044
Other receivables – total	30,089,994	27,995,184

Receivables from compensation disbursed include receivables due from banks and cooperative credit unions that failed to meet their commitments to clients; they amounted to CZK 30,069,097,000 as of 31 December 2016 (as of 1 January 2016: CZK 27,722,952,000, of which CZK 45,757,000 was a receivable based on funds provided to a financial institution in order to disburse compensation that has however not yet been disbursed).

No adjustments were created for these receivables based on a measure of the Ministry of Finance of the Czech Republic (see note 2.16.).

If there were an option to create an adjustment, the Deposit Insurance Fund would create an 89% adjustment for the Receivables from compensation for deposits disbursed.

Other receivables include a receivable from the Deposit Insurance Fund against the Crisis Resolution Fund to cover the costs connected with the management of the Crisis Resolution Fund of CZK 1,945,000.

3.2 Debt Securities Held to Maturity**Debt securities held to maturity at amortised costs:**

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Debt securities held to maturity	3,576,545	3,516,518

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2016 (the same as in 2015). The value of the bonds in market terms reached CZK 4,123,163,000 as of 31 December 2016 (as of 1 January 2016 the value was CZK 4,235,810,000).

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3.3 Securities Held for Trading

Fair value of securities held for trading:

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Debt securities held for trading	758,450	8,212,961

Czech government bonds made up 100% of the value of securities held for trading as of 31 December 2016 (92% as of 1 January 2016, with treasury bills accounting for the rest).

The decrease in the volume of debt securities for trading is due to a change in the investment strategy, when in 2016 the majority of securities were sold and the funds were mainly invested in repo operations with government treasury bills or CNB vouchers.

3.4 Statement of Changes on the Funds Account

The Deposit Insurance Fund has no registered capital. Its equity consists of a funds account and its profit/loss.

Statement of changes on the funds account:

(CZK '000)	As of 31 December 2016	As of 1 January 2016
Deposit Insurance Fund:		
Opening balance	53,147,748	49,252,117
Contributions received (see note 3.6.)	2,055,539	4,417,474
New receivables due from banks in insolvency and liquidation	3,534,849	3,317
Written-off receivables and payables from compensation disbursements	-940,940	-522,461
Compensation disbursement	-3,534,849	-3,317
Additional payments and refunds from settlement, other receivables due from banks	752	618
Closing balance	54,263,099	53,147,748

In 2016, the disbursement of compensation for deposits from the resources of the Deposit Insurance Fund commenced to clients of ERB Bank, a. s., and the disbursement of compensation for deposits to clients of Metropolitní spořitelní družstvo and WPB Capital, spořitelní družstvo continued.

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3.5 Liabilities

Payables from compensation disbursements as of 31 December 2016 were CZK 293,692,000 (1 January 2016: CZK 50,598,000). Payables from compensation disbursements are posted in Liabilities in Part B.III. - Other payables.

Payables from social security and health insurance as of 31 December 2016 were CZK 821,000 (1 January 2016: CZK 520,000), of which CZK 456,000 (1 January 2016: CZK 276,000) is social security payables and CZK 365,000 (1 January 2016: CZK 244,000) is health insurance payables.

Tax liabilities amounted to CZK 572,000 (1 January 2016: CZK 365,000)

None of these payables were overdue.

3.6 Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.15.).

(CZK '000)	2016
Contributions received from banks	2,055,539

In 2016, bank contributions to the Deposit Insurance Fund for the 4th quarter of 2015 totalled CZK 1,176,107,000 according to their payment system valid until the end of 2015. Based on the amendment to the Act on Banks No. 375/2015 Coll., by 30 June 2016 bank contributions for 2016 totalled CZK 879,432,000.

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3.7 Summary of Revenues and Expenses of the Current and Previous Accounting Periods

(CZK '000)	As of 31 December 2016
Revenues:	
Revenues from securities sold	5,697,571
Revenues from short-term financial investment	65,733
Revenues from long-term financial assets	124,941
Interest	3,780
Other revenues (see note 3.8.)	3,070
Total	5,895,095
Expenses:	
Securities sold	-5,747,447
Amortisation of intangible and depreciation of tangible fixed assets	-557
Purchases consumed	-518
Services	-12,520
Personnel costs	-13,628
Taxes and fees	-71
Other expenses (see note 3.8.)	-5,958
Total	-5,780,699

Of the total of CZK 3,780,000 of interest income, revenues from buy/sell and repo operations amounted to CZK 3,706,000.

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3.8 Other Revenues and Other Expenses

(CZK '000)	As of 31 December 2016
Revenues:	
Foreign exchange gains	2
Sundry operating revenues - foreign exchange gains from securities transactions and change in the fair value of derivatives held for trading	0
Sundry operating revenues - change in the fair value of securities held for trading	2,883
Other	0
Contractual penalties, default interest and fines	185
Total	3,070
Expenses:	
Foreign exchange losses	-17
Sundry other expenses - foreign exchange losses from securities transactions and change in the fair value of derivatives held for trading	0
Sundry other expenses - change in the fair value of securities held for trading	-3,624
Other	-2,317
Total	-5,958

The 2016 profit of CZK 114,396,000 is proposed for transfer to retained earnings from prior years.

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2016 amounted to CZK 10,776,000. The share of wage costs covered by the Deposit Insurance Fund amounts to CZK 9,993,000.

In 2016, the auditor Ernst & Young, Audit, s. r. o. was reimbursed for the statutory audit of the financial statements for 2015 and for the statutory audit of the opening balance sheets of the Financial Market Guarantee System and the Deposit Insurance Fund as of 1 January 2016, totalling CZK 315,000. The Deposit Insurance Fund's share of these costs is CZK 310,000.

In 2016, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 78,000 in connection with liability insurance for the members of the Board of Directors and the members of the Management Board for damage caused when exercising their functions. The Deposit Insurance Fund's share of these costs is CZK 72,000.

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3.9 Reimbursement of Costs Related to the Management of the Deposit Insurance Fund to the Financial Market Guarantee System

Pursuant to Section 207 (2) of the AFCPR, the Financial Market Guarantee System has the right to the reimbursement of costs incurred in connection with the management of the Deposit Insurance Fund and the Crisis Resolution Fund, and this from the Deposit Insurance Fund and from the operational fund of the Crisis Resolution Fund. In 2016, the Financial Market Guarantee System only incurred costs connected with the management of the two Funds.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2016 totalled CZK 30,633,000, of which CZK 28,688,000 was expenses related to the management of the Deposit Insurance Fund and CZK 1,945,000 expenses related to the management of the Crisis Resolution Fund.

Due to the lack of resources in the operational fund of the Crisis Resolution Fund, costs related to the management of the Crisis Resolution Fund amounting to CZK 1,945,000 in accordance with Section 207 (2) of the AFCPR were paid from resources from the Deposit Insurance Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund against the Crisis Resolution Fund, which will be paid to the Deposit Insurance Fund from the operational fund of the Crisis Resolution Fund when there are sufficient resources in this operational fund.

Costs related to the management of the Deposit Insurance Fund totalling CZK 28,688,000 were reimbursed to the Financial Market Guarantee System from resources on the Deposit Insurance Fund.

3.10 Litigations

The following three actions were filed against the original Deposit Insurance Fund in 2010 and 2011:

Claimant TALIATELLA HOLDINGS LIMITED (previously Conroe Consulting Services Limited)

On 18 December 2010, an action was filed against the Deposit Insurance Fund by Conroe Consulting Services Limited, registered office at 46/2, South Street, Valleta VLT 1101 Malta, **seeking the payment of CZK 1,561,731,947 including accessions. The action was filed with the District Court for Prague 1. The claimant is seeking the awarding of a claim consisting of damages in the above-mentioned amount that allegedly arose from the defendant, i.e. the Deposit Insurance Fund, failing to disburse**, in accordance with Act No. 443/2006 Coll. (Act on Compensation), as amended until 2 March 2007, **compensation for insured deposits to clients of Kreditní banka Plzeň, a.s. within the statutory period.** At the time, the Deposit Insurance Fund proceeded in line with the Act on Banks and failed to disburse the compensation because the Czech National Bank - in agreement with the Ministry of Finance of the Czech Republic - had extended the period for compensation disbursement. The relevant part of the above-mentioned Act on Compensation was subsequently repealed by a ruling of the Constitutional Court of the Czech Republic dated 15 February 2007, effective from 2 March 2007. On 2 May 2012, the District Court for Prague 1 rendered judgment with reference 18 C 364/2010-80 that the application for the payment of CZK 1,561,731,947, including accessions, was rejected and the claimant was obliged to reimburse the defendant for the costs of the proceedings. The claimant appealed against this judgment and subsequently supplemented its appeal. In addition, based on an agreement to assign the receivable, the original claimant, Conroe Consulting Services Limited, was replaced by TALIATELLA HOLDINGS LIMITED.

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At the hearing held on 27 January 2014, the court of appeal rejected the claimant's appeal against the first-instance judgment and awarded the costs of the proceedings in favour of the Deposit Insurance Fund. **The written version of the judgment was delivered on 25 April 2014. Legal force clause was marked to this judgement on 6 February 2015. On 20 August 2015, the District Court for Prague 1 issued a European Enforcement Order - the certificate confirming a judgement. At the current time the costs of the proceedings are being sought from the claimant.**

Claimant ASSETWISE LIMITED

On 30 August 2011, an action was filed with the Municipal Court in Prague against the Deposit Insurance Fund by ASSETWISE LIMITED, ID No.: HE 284286, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, P. C. 6042 Larnaca, the Republic of Cyprus, **seeking the payment of CZK 1,406,963,367, including accessions. The claim is based on the provisions of part two of Article III (4) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking financial compensation.** The High Court in Prague subsequently decided in terms of the material jurisdiction that district courts had jurisdiction to hear and decide the case at the first instance. The proceedings were suspended by court ruling of 9 December 2013 until the appeal proceedings in the case VALSPRING HOLDINGS LIMITED vs. the Deposit Insurance Fund (see below) were finally concluded. **A ruling by the Municipal Court in Prague, reference 97 Co 254/2014-126, dated 16 June 2014, revoked the ruling that had suspended the proceedings. Upon the claimant's proposal, the District Court for Prague 1 ordered the disputing parties to participate in person in the first meeting with the mediator. The first meeting with the mediator took place on 3 November 2015, but no out-of-court agreement was reached. The defendant notified this fact to the District Court for Prague 1 and suggested that the court should continue the proceedings, i.e. deal with the case at hand. A court hearing in the case was scheduled for 30 March 2016 at the District Court for Prague 1. On 30 March 2016, the District Court for Prague 1 decided that the action for the payment of CZK 1,406,963,367, including accessions, was rejected and that the claimant was obliged to reimburse the defendant for the costs of the proceedings. On 14 June 2016, the claimant submitted an appeal to the Municipal Court in Prague. The defendant made a statement on this appeal on 22 July 2016.**

In this case we have to state that these proceedings are based on the assessment of a legal issue / legal issues relating to the process of extending the period for disbursement commencement defined by the Act on Additional Compensation, and on the assessment of the claimant's right to bring proceedings. Another assessment criterion is the impact of constitutional law regulations on future legal relations after the above-mentioned law was repealed. The Deposit Insurance Fund's position is supported by the fact stated above that in several litigations the courts deciding the cases ruled that the process of extending the period for commencing the disbursement was de iure free of any defects, i.e. that the Deposit Insurance Fund had never delayed making its compensation disbursements. In addition, the rationale provided by the courts when deciding on other cases can lead to the opinion that the Act on Additional Compensation could never stand in the structure of existing legislation due to its evident legislative defects, which makes the Deposit Insurance Fund believe that claims for performance cannot be made now on the basis of this repealed Act. The Deposit Insurance Fund has numerous legal arguments to support its opinion and consequently its potential success in this case. Moreover, as mentioned above, the claimant's cause of action was dismissed (the final decision on the dismissal is however still pending) by the District Court for Prague 1.

Claimant MERKURIO PANAMA S.A. (previously VALSPRING HOLDINGS LIMITED)

On 30 August 2011, an action was filed with the Municipal Court in Prague against the Deposit Insurance Fund by VALSPRING HOLDINGS LIMITED, ID No.: HE 235682, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, Post Code 6042, Larnaca, the Republic of Cyprus, **seeking the payment of CZK 1,621,470,327, including accessions. This claim is based on the provisions of part two of Article III (1) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking an additional compensation payment.** The defendant gave its statement on the application. The claimant only gave its statement on the material jurisdiction of the court. The High Court in Prague subsequently

The Deposit Insurance Fund

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Year ended 31 December 2016

decided in terms of the material jurisdiction that district courts had jurisdiction to hear and decide the case at the first instance. **By its judgment of 29 May 2013, the District Court for Prague 1 rejected the application in full and awarded the costs of the proceedings to the Deposit Insurance Fund. The claimant appealed this judgment, and the defendant gave its statement on the appeal. The hearing before the court of appeal was adjourned ad infinitum in order to change the entity of the claimant. A ruling by the Municipal Court in Prague, reference 53 Co 420/2013-262, dated 15 January 2015, allowed MERKURIO PANAMA S.A., with its registered office in the Republic of Panama, Panama, 50th Avenue, Global Bank Tower, 18th floor, Office 1801, to join the proceedings in lieu of the previous claimant. At a hearing held on 14 September 2015, the court of appeal upheld the first-instance judgement, and awarded the costs of the proceedings in favour of the Deposit Insurance Fund. By consulting the justice.cz information system, it was discovered that the claimant had filed an extraordinary appeal on 25 January 2016. On 16 February 2016, the District Court for Prague 1 sent to the defendant the claimant's extraordinary appeal of 25 January 2016 so that the defendant could comment on the claimant's extraordinary appeal. The defendant commented on the claimant's extraordinary appeal on 26 February 2016. On 26 October 2016, the Supreme Court of the Czech Republic decided to reject the appeal and to grant the defendant compensation for the costs of the appeal proceedings. At the current time the costs of the proceedings are being sought from the claimant.**

All of the three above-mentioned claimants acquired their receivables under agreements to assign a receivable from the assignor Česká pojišťovna, a.s., with its registered office in Prague 1, Spálená 75/16, post code 113 04, ID No.: 452 72 956 which, together with its subsidiary, ALPHA BROKER, a.s., had disbursed compensation to the clients of Kreditní banka Plzeň, a.s. v likvidaci beyond the scope of compensation disbursed by the Deposit Insurance Fund. The Deposit Insurance Fund does not account for provisions and does not believe that it is necessary to block funds for the purposes of the above-mentioned litigations.

In conclusion, it must be stated that the court decisions on the cases initiated by claimant **ASSETWISE LIMITED** and claimant **MERKURIO PANAMA S.A.** cannot be precisely foreseen.

3.11 Subsequent Events

No events took place after the balance sheet date which could have a material impact on the Deposit Insurance Fund financial statements as of 31 December 2016.

The financial statements of the Deposit Insurance Fund were approved by the Board of Directors of the Financial Market Guarantee System:

Prague, 20 June 2017



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager

X THE CRISIS RESOLUTION FUND INDEPENDENT AUDITOR'S REPORT



(Translation of a report originally issued in Czech.)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the company Garanční systém finančního trhu:

Opinion

We have audited the accompanying financial statements of Fond pro řešení krize („the Fund“) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2016, and the income statement, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Fond, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2016, and of its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund and the company Garanční systém finančního trhu in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Statutory Body of the company Garanční systém finančního trhu for the Financial Statements

The Statutory Body of the company Garanční systém finančního trhu is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Statutory Body of the company Garanční systém finančního trhu determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Statutory Body of the company Garanční systém finančního trhu is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body of the company Garanční systém finančního trhu either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control and of the company Garanční systém finančního trhu internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body of the company Garanční systém finančního trhu.
- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body of the company Garanční systém finančního trhu regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Audit, s.r.o.
License No. 401


Roman Hauptfleisch, Auditor
License No. 2009

20 June 2017
Prague, Czech Republic

FINANCIAL STATEMENTS

The Crisis Resolution Fund

Date of financial statements:	31/12/2016
Date of preparation of financial statements:	27/4/2017

Balance Sheet as of 31 December 2016
(CZK '000)

ASSETS	As of 31 December 2016
A. Total fixed assets	0
I. Intangible fixed assets – software	0
II. Tangible fixed assets	0
Works of art, objects and collections	0
Buildings	0
Tangible assets and their sets	0
III. Long-term investments – bonds, debentures and similar securities held to maturity	0
IV. Total accumulated depreciation and amortisation of fixed assets	0
Accumulated amortisation of software	0
Accumulated depreciation of buildings	0
Accumulated depreciation of machinery and equipment	0
B. Total current assets	2,958,882
II. Total receivables	0
Operating advances paid	0
Other receivables	0
III. Total current financial assets	2,958,882
Cash in hand	0
Stamps and vouchers	0
Financial resources on accounts	2,958,882
Debt securities held for trading	0
IV. Total other assets	0
Prepaid expenses	0
Accrued income	0
Total assets	2,958,882

The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2016

(CZK '000)

LIABILITIES	As of 31 December 2016
A. Total equity	2,956,937
I. Equity – funds	2,958,882
II. Total profit/loss	-1,945
Profit/loss account	-1,945
Retained earnings / Retained losses from prior years	0
B. Total liabilities	1,945
III. Total current payables	1,945
Payables to suppliers	0
Other payables to employees	0
Payables to social security and public health insurance institutions	0
Other direct tax liabilities	0
Payables from fixed-term operations	0
Other payables	1,945
Estimated payables	0
Total equity and liabilities	2,958,882

The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2016

Profit and Loss Account for the year ended 31 December 2016
(CZK '000)

	Activity		
	Main	Economic	Total
A. Expenses			
I. Consumed purchases and purchased services	772	0	772
1. Consumption of material	41	0	41
3. Repairs and maintenance	3	0	3
4. Travel expenses	66	0	66
5. Representation expenses	14	0	14
6. Other services	648	0	648
III. Personnel costs	1,068	0	1,068
10. Wages and salaries	783	0	783
11. Statutory social security insurance	243	0	243
13. Statutory social expenses	28	0	28
14. Other social expenses	14	0	14
IV. Taxes and fees	1	0	1
V. Other expenses	61	0	61
19. Foreign exchange losses	1	0	1
22. Sundry other expenses	60	0	60
VI. Depreciation and assets sold, creation and use of provisions and adjustments	43	0	43
23. Amortisation of intangible and depreciation of tangible fixed assets	43	0	43
25. Securities and shares sold	0	0	0
Total expenses	1,945	0	1,945

The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2016

(CZK '000)

	Activity		
	Main	Economic	Total
B. Revenues			
IV. Other revenues	0	0	0
5. Contractual penalties and late payment interest, Other fines and penalties	0	0	0
7. Interest revenue	0	0	0
8. Foreign exchange gains	0	0	0
10. Sundry other revenues	0	0	0
V. Revenues from assets sold	0	0	0
12. Revenues from securities and interests sold	0	0	0
Total revenues	0	0	0
C. Profit/loss before tax	-1,945	0	-1,945
D. Profit/loss after tax	-1,945	0	-1,945

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Guarantee System performed only the main activities for which it was established in terms of the management of the Crisis Resolution Fund. Nor did the Guarantee System perform any economic activity within the meaning of Section 5a (2) of the Decree (additional, secondary, business or other activity outside the main activity).

The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2016

1 General Information

The Crisis Resolution Fund is an accounting unit managed by the Financial Market Guarantee System, which is a legal person governed by public law, which was under its original name the Deposit Insurance Fund, established by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

The identification number of the Financial Market Guarantee System is 497 10 362. Based on Act No. 586/1992 Coll., on Income Taxes, as amended, the income of the Financial Market Guarantee System is exempt from income tax. The registered office of the Financial Market Guarantee System is Prague 1, Týn 639/1.

Under legislation effective from 1 January 2016, the Management Board of the Financial Market Guarantee System is its statutory body. The Board of Directors remains the supreme body of the Financial Market Guarantee System with the powers listed in Section 201 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution.

The mission of the Financial Market Guarantee System is the operation of the deposit insurance system in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq., Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq., Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution). By performing these activities, the Financial Market Guarantee System contributes to the stability of the financial market.

1.1 Transformation of the Deposit Insurance Fund into the Financial Market Guarantee System

With effect from 1 January 2016, based on Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution (the "AFCPR"), the Deposit Insurance Fund was transformed into the Financial Market Guarantee System. This was not a "transformation" of a legal person within the meaning of Section 174 et seq. of Act No. 89/2012 Coll., the Civil Code (i.e. in the sense of a merger, division or change of legal form), but only a "change" consisting in particular of: a) a name change (Section 252 of the AFCPR), b) a change to the organisational structure (Section 199 et seq. of the AFCPR - a change to the statutory body, a listing of the powers of the Board of Directors, etc. and c) an extension of the scope of activity (Section 198 of the AFCPR, on the management of assets in the Crisis Resolution Fund). We thus cannot speak of legal succession because there has been no transition of rights and obligations, and the legal person (holder of rights and obligations) has been retained (the same identification number).

1.2 Managed Funds (Nonentities)

In view of the retention of continuity of legal personality (the original Deposit Insurance Fund has changed to the Financial Market Guarantee System), while the funds managed by the Financial Market Guarantee System (the Deposit Insurance Fund and the Crisis Resolution Fund) have no legal personality (Section 198 (4) of the AFCPR), it is necessary to differentiate the Deposit Insurance Fund until 31 December 2015 (legal personality, change to the Financial Market Guarantee System) and the Deposit Insurance Fund from 1 January 2016 (nonentity made up of part of the assets of the Financial Market Guarantee System).

The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2016

While the new nonentity Deposit Insurance Fund was de facto established by law on 1 January 2016 (see Section 254 of the AFCPR on allocation of assets and debts to the Deposit Insurance Fund), the Crisis Resolution Fund was established on the basis of Section 209 (1) of the AFCPR through the Statute of the Financial Market Guarantee System on 12 January 2016 (Article 5 of the Financial Market Guarantee Fund Statute).

1.3 Assets Placed in Funds

Section 198 (2) of the AFCPR states that the Financial Market Guarantee System manages assets created by the Deposit Insurance Fund, the Crisis Resolution Fund and other assets of the Financial Market Guarantee System. From the legal point of view, therefore, they are always assets of the Financial Market Guarantee System, located a) in the Deposit Insurance Fund, b) in the Crisis Resolution Fund, c) outside of both funds (i.e. not a model of an investment company - mutual fund, when the assets in the mutual fund are not the assets of the investment company).

From the accounting point of view, the Financial Market Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund are three separate accounting units, while the assets constituted by the Deposit Insurance Fund, the assets constituted by the Crisis Resolution Fund and other assets of the Financial Market Guarantee System are kept separately in asset and accounting terms (Section 205 and Article 198 (2) of the AFCPR). Each of the accounting units has its own financial statements and their preparation is ensured by the Financial Market Guarantee System.

The Crisis Resolution Fund had no assets at the time of its establishment.

The Crisis Resolution Fund

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Year ended 31 December 2016

2 Accounting Policies

2.1 Bookkeeping

The Financial Market Guarantee System provides accounting for the management of the Crisis Resolution Fund pursuant to Act No. 563/1991 Coll., on Accounting, as amended (the “Act on Accounting”), Implementing Decree No. 504/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units whose main business activity is not commercial business, if they use double-entry bookkeeping, as amended (the “Decree”) and other legislation governing bookkeeping, and in accordance with the accounting methods specified therein.

The Crisis Resolution Fund is a separate accounting unit (“accounting unit”).

The Financial Market Guarantee System records the status and movement of assets and liabilities, costs and revenues, and profit or loss of the Crisis Resolution Fund. The accounting for the subject of accounting is performed in ledgers kept separately for the Crisis Resolution Fund in a way that allows for the preparation of financial statements for the Crisis Resolution Fund.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System performs the management of the Crisis Resolution Fund and that the Financial Market Guarantee System is entitled and bound by the legal relationships. From the point of view of the accounting, all the accounting documents (as well as the electronic registry service) will be recorded in the Financial Market Guarantee System.

The Financial Market Guarantee System Statute states that the Financial Market Guarantee System manages the Deposit Insurance Fund and the Crisis Resolution Fund (the “Funds”) and that all activity is tied to the management of the Funds. In terms of the bookkeeping, all expenses, revenues, costs, income, receivables and payables are items for the individual Funds. The Financial Market Guarantee System, as a legal person, maintains all these accounting cases in its accounts and materially assigns them to the individual Funds.

2.2 System of Accounting and Retention of Accounting Documents

The Financial Market Guarantee System maintains full accounts for the Crisis Resolution Fund, uses double-entry accounting for the status and movement of property and other assets, payables, including debts and other liabilities, costs and revenues, and profit or loss.

It uses double-entry records for facts that are the subject of their accounts until the period to which they relate in time and in fact.

The accounting period for the Crisis Resolution Fund is the calendar year.

The bookkeeping for the Crisis Resolution Fund has been kept since its establishment on 12 January 2016. In view of the date of establishment of the Crisis Resolution Fund, only the current period is indicated in the financial statements.

The Financial Market Guarantee System maintains a single bookkeeping for the Crisis Resolution Fund for the accounting unit as a whole.

The Crisis Resolution Fund

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Year ended 31 December 2016

The bookkeeping is maintained as a set of accounting records using technical means, data carriers and software. An accounting record is data that are a record of all the facts relating to the maintenance of the accounts. Accounting units must record every fact relating to the maintenance of accounts exclusively through accounting records. Individual accounting records may be grouped into aggregate accounting records; such accounting records are in particular accounting documents, accounting entries, ledgers, the depreciation plan, inventory listings, accounting plans, financial statements and the annual report.

The bookkeeping is maintained in monetary units of the Czech currency.

The bookkeeping is maintained in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled.

Facts that are the subject of the accounts (“accounting cases”) are captured through accounting documents.

Accounting cases are recorded in ledgers (“accounting entries”) only on the basis of probative accounting records.

Bookkeeping is kept in such a way that the financial statements prepared on their basis are comprehensible and provide a true and fair view of the accounting unit’s accounts and financial situation.

The bookkeeping is kept in a correct, complete, probative, comprehensible, clear manner that ensures the continuity of the accounting records.

The bookkeeping is kept in a way that ensures the continuity of the accounting records so that the accounting unit complies with its obligations relating to their retention under the Act on Accounting.

The Financial Market Guarantee System assigns another person to process the accounts of the accounting unit on the basis of a contractual relationship in accordance with Section 5 of the Act on Accounting.

The Crisis Resolution Fund

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2.3 Scope of Bookkeeping, Accounting Documents, Accounting Records and Ledgers

The Financial Market Guarantee System maintains separate bookkeeping for the Crisis Resolution Fund in full scope.

The accounting documents are probative accounting records that must include:

- identification of the accounting document,
- the content of the accounting case and its participants,
- the monetary amount or information on the price per unit of measurement and an indication of the quantity,
- the moment of preparation of the accounting document,
- the moment of performance of the accounting case, if not identical to the moment of the preparation of the accounting document,
- the signature record of the person responsible for the accounting case and the signature record of the person responsible for its posting.

The accounting documents are prepared without undue delay.

The accounting entries are accounting records in ledgers.

They are posted in the following ledgers:

- in the journal(s) in which the accounting entries are organized in terms of time (chronologically) and which show the accounting of all the accounting cases in the accounting period,
- in the main ledger in which the accounting entries are organized on a factual (systematic) basis,
- in the books of analytical accounts detailing the accounting records of the main ledger.

2.4 Plan of Accounts

The plan of accounts is prepared for each accounting period within the meaning of the guideline chart of accounts, accounting methods, organization and marking of the items of financial statements, and the content definition of those items determined in the Decree.

During the accounting period, an accounting unit may supplement the plan of accounts.

The amounts in the analytical accounts books must correspond to the relevant aggregate cash amounts of the turnover or balance of the synthetic accounts to which these accounts are connected.

2.5 Financial Statements, Accounting Audit

Before the preparation of the financial statements, an inventory is performed.

The financial statements are an inseparable whole and comprise:

- Balance Sheet,
- Profit and Loss Account,
- Notes.

The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2016

2.6 Storage of Accounting Documents

The Executive Director of the Financial Market Guarantee System is responsible for the organization of the storage of accounting documents, and may designate the person responsible for the execution of the storage of the accounting documents. The archiving of accounting documents is performed according to the Archiving and Shredding Rules.

2.7 Accounting Methodological Guidelines

Accounting methodological guidelines are prepared to comply with Directive No. 22 - Bookkeeping, in accordance with the Accounting Act and other statutory regulations.

The accounting methodological guidelines are approved by the Financial Market Guarantee System Board of Directors.

The accounting methodological guidelines will be updated if there is a change in legislation.

The accounting methodological guidelines relating to the determination of a schedule for performing work under Directive No. 22 - Bookkeeping (e.g. a schedule for the preparation of financial statements) will be updated annually.

2.8 Assignment Procedures for Accounting Cases

2.8.1 Accounting Cases Directly Assignable to the Funds

2.8.1.1 These cases are charged by the Financial Market Guarantee System and directly assigned - posted - to the relevant Fund accounts.

2.8.1.2 These cases include, in particular, received contributions to the Funds and the investment of the financial reserves. Individual bank accounts are set up for the allocation of the contributions to the individual Funds. These accounts may also be used for investing assets in the individual Funds, unless separate bank accounts are established for this purpose. Directly assignable accounting cases to the Funds also include other accounting cases on these bank accounts, such as interest accrued or fees related to the management of these accounts.

The Crisis Resolution Fund

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Year ended 31 December 2016

2.8.2 Other Accounting Cases (for example, received invoices for rent, legal services, accounting, wages, depreciation, etc.)

- 2.8.2.1 Directly assignable accounting documents for individual funds that arise from invoicing (e.g. portfolio management fees), or there is another possibility of direct assignment (for example, an annex with a breakdown of the purpose of legal representation by Fund for legal services). The Financial Market Guarantee System attributes and charges to the relevant Fund accounts according to the supporting criteria established from the accounting case.
- 2.8.2.2 If common accounting cases cannot be assigned to individual Funds under paragraph 2.8.2.1, this assignment will be made at a ratio determined as follows:
- a) To calculate the ratio of costs for managing the individual Funds, the cost-to-work ratio method is used for each Fund in the staff time sheets. Staff at the Financial Market Guarantee System will prepare time sheets on a monthly basis.
 - b) The ratio of the activities performed for each Fund will be calculated as of 31 December.
 - c) The annual ratio calculated under point 2.8.2.2 (b) will be used to account for the advance ratio and will be balanced according to the actual status as of 31 December of the current year.
 - d) The annual ratio calculated under point 2.8.2.2 (b) will be used to determine the advance ratio for the following accounting period. This rule will apply for the first time in the 2017 accounting period.

2.8.3 The Financial Market Guarantee System proceeds with the assignment of expenses similarly to in paragraphs 2.8.1 and 2.8.2, for example, when paying for the purchase of technical equipment, when paying an advance for a future performance, when calculating anticipated costs or income, when paying a deposit or similar performances.

2.9 Providing Advances from the Crisis Resolution Fund for the Operating Costs of the Financial Market Guarantee System

The Financial Market Guarantee System incurs costs connected with the management of the Crisis Resolution Fund.

Expenditure related to the management of the Crisis Resolution Fund is covered from the operational fund of the Crisis Resolution Fund.

The Financial Market Guarantee System shall establish the budget of all accounting units prior to the start of the current year, and at the same time determine the amount of advances to be provided from the Crisis Resolution Fund to cover operating costs. Advances can be provided in instalments.

After the end of the accounting period, advances are settled with actual costs.

Receivables and payables between the managed accounting units from the title of the payment of operating costs are subject to an inventory during the preparation of the financial statements.

2.10 Basic Principles for Preparing the Financial Statements

The financial statements are compiled in accordance with accounting regulations applicable in the Czech Republic and with Czech Accounting Standards for accounting units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for derivatives and securities that are recognised at fair value. The financial statements are compiled on the

The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2016

assumption that the unit is able to continue as a going concern. The amounts in the financial statements and in the notes thereto are rounded to thousands of Czech korunas unless stated otherwise.

2.11 Tangible Fixed Assets

Purchased fixed tangible assets are recognised at acquisition cost, which includes the price for which the assets were acquired and the expenses relating to the acquisition.

The depreciation of fixed tangible assets was calculated using the straight-line depreciation method, based on the estimated useful life of the assets. The depreciation period for personal computers, servers, printers etc. is 3 years. The depreciation period for passenger cars is 5 years. The depreciation period for strongboxes is 10 years.

Repair and maintenance expenses on fixed tangible assets are charged directly to expenses.

Tangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 40,000 per item are charged directly to expenses once they are put into use.

The amortisation of fixed intangible assets was calculated using the straight-line amortisation method over 3 years.

Intangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 60,000 per item are charged directly to expenses once they are put into use.

2.12 Securities and shares

Securities and shares are classified as securities held for trading and securities held to maturity.

Securities held for trading:

Securities held for trading are securities held by the Financial Market Guarantee System for the Crisis Resolution Fund for the purpose of transactions aimed at generating profit from price differences in the short term.

When purchased, securities and shares are recognised at acquisition cost, including transaction expenses. Securities held for trading are measured at fair value. The market value of securities as of the balance sheet date is used to calculate the fair value. The valuation of securities not traded on public markets is based on an expert opinion or a qualified estimate made by the Financial Market Guarantee System.

Interest income from securities held for trading is recognized as Income from short-term assets.

Profit and loss arising from changes in the fair value of securities held for trading are recognised in the profit and loss account in the period in which they arise.

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Securities held to maturity:

Securities held to maturity are non-derivative financial assets with a fixed or predefined yield and fixed maturity, where there is the intention and ability to hold until their maturity.

When purchased, securities held to maturity are recognised at acquisition cost, including transaction expenses, and subsequently valued at amortised costs.

Interest income from securities held to maturity includes accrued coupons, discounts and premiums on debt securities held for trading and is recognised as 'Revenue from fixed assets'.

Repo and buy/sell operations:

Collateralized receivables as part of repo and buy-sell transactions are reported under 'Other receivables', including accrued interest. Interest from these transactions is recorded on an accruals basis for the duration of such a transaction and recognised as interest revenue.

2.13 **Financial Derivatives**

Financial derivatives, including currency transactions, currency and interest rate swaps, are initially recognised in the balance sheet at acquisition cost and subsequently re-valued to their fair values. The fair values are derived from the market prices and from discounted cash flow models.

Derivatives with a positive fair value are recognised as 'Receivables from fixed-term operations'. Derivatives with a negative fair value are recognised as 'Payables from fixed-term operations'.

Changes in the fair value of financial derivatives held for trading are recognised in the profit and loss account, under 'Sundry other revenues' and 'Sundry other expenses'.

2.14 **Foreign Currency Conversions**

Transactions carried out in foreign currencies are converted and posted at the exchange rate valid on the transaction date. All monetary assets and liabilities maintained in foreign currencies were converted at the exchange rate published by the Czech National Bank as of the balance sheet date. All foreign exchange gains and losses arising from the conversion of receivables and payables are recognised in the profit and loss account and are reported under 'Foreign exchange gains' and 'Foreign exchange losses'.

Exchange differences of securities that are measured at fair value and maintained in foreign currencies are considered to be part of their fair value measurement.

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2.15 Contributions Received from Banks

Contributions to the Crisis Resolution Fund are posted to the contribution fund of the Crisis Resolution Fund. The amount of contributions is determined by the Czech National Bank by 1 May of the respective year for which the contributions are paid, and are due within the deadline set by the Czech National Bank.

2.16 Adjustments and Provisions

The Crisis Resolution Fund does not create adjustments, nor does it account for them in accordance with Section 37 (1) of Decree of the Ministry of Finance of the Czech Republic No. 504/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units that are not primarily engaged in business activity if they use a double-entry accounting system. The Crisis Resolution Fund neither creates nor accounts for provisions in accordance with Section 40 (1) of the above-mentioned Decree.

2.17 Equity/Funds

Based on the decision of the Board of Directors, the financial result (profit or loss from the current year) is transferred to Retained earnings / Retained losses from prior years or to the Funds item within the framework of the own resources of the Crisis Resolution Fund. The subsequent transfer of retained earnings from prior years from the Retained earnings / Retained losses from prior years item to the Funds item is possible again if the Board of Directors so decides.

2.18 Use of Estimates

The preparation of the financial statements requires the use of estimates and assumptions that influence the recognised values of assets and liabilities as of the date of the financial statements, and the recognised amounts of revenues and expenses for the reporting period. The Crisis Resolution Fund has defined these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, the inherent nature of estimates means that the actual future values may differ from these estimates.

2.19 Subsequent Events

The impact of events that occurred between the balance sheet date and the date of preparation of the financial statements is reported in the accounting reports if such events provide additional information about the facts that existed as of the balance sheet date.

In the event that material events reflecting facts that occurred after the balance sheet date occurred between the balance sheet date and the date of preparation of the financial statements, the consequences of these events are described in the notes to the financial statements but are not posted to the financial statements.

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3 Additional Information on the Balance Sheet and Profit and Loss Account

3.1 Short-Term Financial Assets

Financial Resources in the assets of the Crisis Resolution Fund were deposited on a current account with the Czech National Bank.

3.2 Statement of Changes on the Funds

The Crisis Resolution Fund has no registered capital. Its equity consists of a funds account and its profit/loss.

Statement of changes on the funds account:

(CZK '000)	As of 31 December 2016
The Crisis Resolution Fund:	
Opening balance	0
Contributions received (see note 3.4.)	2,958,882
Closing balance	2,958,882

3.3 Liabilities

A liability for the Crisis Resolution Fund to reimburse costs connected with the management of the Crisis Resolution Fund against the Deposit Insurance Fund of CZK 1,945,000. None of the liabilities are past due.

3.4 Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.15.).

(CZK '000)	2016
Contributions received from banks	2,958,882

In connection with the establishment of the Crisis Resolution Fund, at the turn of 2016, banks and selected investment firms paid contributions to this fund for 2016 totalling CZK 2,958,882,000.

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3.5 Summary of Revenues and Expenses of the Current and Previous Accounting Periods

(CZK '000)	As of 31 December 2016
Revenues:	
Revenues from securities sold	0
Revenues from short-term financial investment	0
Revenues from long-term financial assets	0
Interest	0
Other revenues (see note 3.6.)	0
Total	0
Expenses:	
Securities sold	0
Amortisation of intangible and depreciation of tangible fixed assets	-43
Purchases consumed	-41
Services	-731
Personnel costs	-1,068
Taxes and fees	-1
Other expenses (see note 3.6.)	-61
Total	-1,945

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3.6 Other Revenues and Other Expenses

(CZK '000)	As of 31 December 2016
Revenues:	
Foreign exchange gains	0
Sundry operating revenues - foreign exchange gains from securities transactions and change in the fair value of derivatives held for trading	0
Sundry operating revenues - change in the fair value of securities held for trading	0
Other	0
Contractual penalties, default interest and fines	0
Total	0
Expenses:	
Foreign exchange losses	-1
Sundry other expenses - foreign exchange losses from securities transactions and change in the fair value of derivatives held for trading	0
Sundry other expenses - change in the fair value of securities held for trading	0
Other	-60
Total	-61

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2016 amounted to CZK 10,776,000. The share of wage costs covered by the Crisis Resolution Fund amounts to CZK 783,000.

In 2016, the auditor Ernst & Young, Audit, s. r. o. was reimbursed for the statutory audit of the financial statements for 2015 and for the statutory audit of the opening balance sheets of the Financial Market Guarantee System and the Deposit Insurance Fund as of 1 January 2016, totalling CZK 315,000. The Crisis Resolution Fund's share of these costs is CZK 5,000.

In 2016, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 78,000 in connection with liability insurance for the members of the Board of Directors and the members of the Management Board for damage caused when exercising their functions. The Crisis Resolution Fund's share of these costs is CZK 6,000.

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3.7 Reimbursement of Costs Related to the Management of the Crisis Resolution Fund to the Financial Market Guarantee System

Pursuant to Section 207 (2) of the AFCPR, the Financial Market Guarantee System has the right to the reimbursement of costs incurred in connection with the management of the Deposit Insurance Fund and the Crisis Resolution Fund, and this from the Deposit Insurance Fund and from the operational fund of the Crisis Resolution Fund. In 2016, the Financial Market Guarantee System only incurred costs connected with the management of the two Funds.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2016 totalled CZK 30,633,000, of which CZK 28,688,000 was expenses related to the management of the Deposit Insurance Fund and CZK 1,945,000 expenses related to the management of the Crisis Resolution Fund.

Due to the lack of resources in the operational fund of the Crisis Resolution Fund, costs related to the management of the Crisis Resolution Fund amounting to CZK 1,945,000 in accordance with Section 207 (2) of the AFCPR were paid from resources from the Deposit Insurance Fund, while in accounting terms this is a liability to the Deposit Insurance Fund, which will be paid to the Deposit Insurance Fund from the operational fund of the Crisis Resolution Fund when there are sufficient resources in this operational fund.

3.8 Subsequent Events

No events took place after the balance sheet date which could have a material impact on the Crisis Resolution Fund financial statements as of 31 December 2016.

The financial statements of the Crisis Resolution Fund were approved by the Board of Directors of the Financial Market Guarantee System:

Prague, 20 June 2017



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager