

# ANNUAL REPORT

for 2019



# CONTENTS

<b>I</b>	<b>INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS</b> .....	<b>4</b>
	Commentary on the current situation – Spring 2020 .....	5
<b>II</b>	<b>STRUCTURE OF THE FINANCIAL MARKET GUARANTEE SYSTEM</b> .....	<b>6</b>
	Accounting Units .....	6
	The Financial Market Guarantee System .....	6
	The Deposit Insurance Fund .....	6
	The Crisis Resolution Fund .....	6
<b>III</b>	<b>AUTHORISED REPRESENTATIVE</b> .....	<b>7</b>
	Bodies of the Financial Market Guarantee System .....	7
	Members of the Board of Directors of the Financial Market Guarantee System in 2019 .....	7
	Members of the Management Board of the Financial Market Guarantee System in 2019 .....	7
<b>IV</b>	<b>ACTIVITY OF THE FINANCIAL MARKET GUARANTEE SYSTEM IN 2019</b> .....	<b>8</b>
	Macroeconomic Developments in the Czech Republic in 2019, Macroeconomic and Regulatory Environment of the Insured Institutions .....	8
	Information Technologies and Security .....	10
	International Cooperation .....	10
	Investment Activities .....	11
	Reporting Method .....	11
<b>V</b>	<b>PROVISION OF INFORMATION PURSUANT TO ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION</b> .....	<b>12</b>
<b>VI</b>	<b>ROLE AND ACTIVITIES IN DEPOSIT INSURANCE IN 2019</b> .....	<b>12</b>
	Role in Deposit Insurance .....	12
	Legislation .....	12
	Testing Banking Data .....	13
	Stress Test .....	14
	Disbursements of Compensation for Deposits .....	14
	Receivables Against Insured Institutions .....	17
	Contributions by Insured Institutions to the Deposit Insurance Fund .....	19
	Management of the Deposit Insurance Fund Portfolio .....	21
	Main Cash Flows of the Deposit Insurance Fund – History .....	24

# CONTENTS

<b>VII</b>	<b>ROLE AND ACTIVITIES IN CRISIS RESOLUTION IN 2019</b>	<b>25</b>
	Role of the Crisis Resolution Fund	25
	Legislation	25
	Contributions to the Crisis Resolution Fund	26
	Management of the Crisis Resolution Fund Portfolio	26
	Main Cash Flows of the Crisis Resolution Fund	27
<b>VIII</b>	<b>THE FINANCIAL MARKET GUARANTEE SYSTEM</b>	
	<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>28</b>
	<b>FINANCIAL STATEMENTS</b>	<b>32</b>
	Balance Sheet as of 31 December 2019	32
	Profit and Loss Account for the year ended 31 December 2019	34
	1 General Information	36
	2 Accounting Policies	39
	3 Additional Information on the Balance Sheet and Profit and Loss Account	47
<b>IX</b>	<b>THE DEPOSIT INSURANCE FUND</b>	
	<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>54</b>
	<b>FINANCIAL STATEMENTS</b>	<b>57</b>
	Balance Sheet as of 31 December 2019	57
	Profit and Loss Account for the year ended 31 December 2019	59
	1 General Information	61
	2 Accounting Policies	63
	3 Additional Information on the Balance Sheet and Profit and Loss Account	71
<b>X</b>	<b>CRISIS RESOLUTION FUND</b>	
	<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>77</b>
	<b>FINANCIAL STATEMENTS</b>	<b>80</b>
	Balance Sheet as of 31 December 2019	80
	Profit and Loss Account for the year ended 31 December 2019	82
	1 General Information	84
	2 Accounting Policies	86
	3 Additional Information on the Balance Sheet and Profit and Loss Account	93

# I INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



At first glance, 2019 could be regarded as a fundamentally calm year for the Financial Market Guarantee System, an institution that manages the Deposit Insurance Fund and the Crisis Resolution Fund. This is because, for the third year in a row, the stable situation in the financial market meant there were no new events that would

trigger disbursement of compensation for deposits, nor was there any situation requiring activation of the Crisis Resolution Fund.

The period of calm in the financial market can only be seen as positive news. However, it is also an opportunity to pay attention to equally important issues, such as readiness for future developments, which, as we have seen in the past, cannot be predicted with certainty. In 2019, therefore, the Financial Market Guarantee System mainly focused on testing established processes, performing audits, building international cooperation for potential cross-border disbursements, etc.

The Financial Market Guarantee System tested its readiness for crisis situations through a very detailed and comprehensive stress test of operating capabilities and financial readiness prescribed by the European Banking Authority (EBA), which took place in May and June 2019. This stress test involved not only all employees of the Financial Market Guarantee System, but also, for instance, the relevant departments of the Czech National Bank or the Ministry of Finance of the Czech Republic. The results of this test proved that the Financial Market Guarantee System is well prepared for potential crisis scenarios.

As I have already mentioned, in 2019, as in the two previous years, no disbursement of compensation for deposits was initiated and so the Financial Market Guarantee System only completed the disbursement of compensation to the clients of ERB bank, a.s. This disbursement was started in 2016 and terminated after the expiry of the three-year statutory period in October 2019. During this period, the Financial Market Guarantee System disbursed compensation from the Deposit Insurance Fund to nearly 3,500 clients totaling over CZK 3.5 billion.

Thanks to regular contributions by the banks and cooperative credit unions participating in the deposit insurance scheme, which totalled CZK 1,076 million in 2019, the Deposit Insurance Fund had reserves of CZK 34,065.41 million as of 31 December 2019. This amount is significantly above the target regulatory threshold (0.8% of covered deposits), and means that the contributions from banks and cooperative credit unions prescribed for 2020 will be again at a reduced rate, corresponding in total to 0.045% of the volume of covered deposits.

The Crisis Resolution Fund, which was established in 2016 and which is also managed by the Financial Market Guarantee System, has not been used yet and has been gradually increasing its capacity. As a result of the contributions made in 2019, which totalled CZK 3,446.58 million, the total reserve of the Crisis Resolution Fund stood at CZK 12,820.99 million at the end of 2019.

The Financial Market Guarantee System also paid great attention to international cooperation.

In 2019, bilateral agreements on cooperation in potential cross-border disbursements of compensation for deposits were signed with three neighbouring countries (Austria, Slovakia and Poland). Such a situation would arise if a bank headquartered in one of the EU countries and operating in the Czech Republic through a branch became insolvent or, conversely, if a bank headquartered in the Czech Republic with branches in other EU countries became insolvent. The signed bilateral agreements follow on from the multilateral agreement on cooperation drafted by the European Forum of Deposit Insurers (EFDI), which the Financial Market Guarantee System acceded to in 2016.

I would also like to mention the EBA Task Force DGS, an initiative of the European Banking Authority for the discussion of potential amendments to Directive 2014/49/EU on deposit guarantee schemes. The discussions were very intensive and employees of the Financial Market Guarantee System took an active part in the debate. The outcome was detailed recommendations for the European Commission for amendments to this Directive from people who work in deposit insurance on a daily basis.

2019 also saw the successful completion of negotiations on the terms of the multilateral Agreement on the Conditions of Auctions, setting out conditions for the sale of Financial Market Guarantee System bonds through auction, where necessary. The agreement was concluded with the five largest banks operating in the Czech financial market.

In 2019, we also launched a project which focuses on the preparation of a new Financial Market Guarantee System website, and which is still underway. Among other things, the website will meet new legal requirements for accessibility for users with disabilities.

The Financial Market Guarantee System clearly did not rest on its laurels in 2019, despite the calm situation in the financial market. On the contrary, we can sum up that 2019 was another year full of challenges, which could not have been tackled without the professional team of employees of the Financial

Market Guarantee System. I would like to take this opportunity to thank them once again for their dedication and commitment throughout 2019. I would also like to thank the members of the Board of Directors who, in addition to the duties they have from their jobs, whether at the Ministry of Finance of the Czech Republic, at the Czech National Bank, or at the Czech Banking Association, have devoted their valuable time to the agenda of the Financial Market Guarantee System.

I can conclude that the Financial Market Guarantee System again fully met its goals for 2019 and remains a reliable component of the financial safety net.

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

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## Commentary on the current situation – Spring 2020

The COVID-19 pandemic, which emerged in the first months of 2020, hit a Czech Republic that had enjoyed years of stable economic growth, relative peace and active reinforcement of financial market stability by the Czech National Bank and the Financial Market Guarantee System. No disbursement of compensation for deposits needed to be commenced in the first half of 2020, and thus the funds that the Deposit Insurance Fund has at its disposal continue to significantly exceed the minimum target level set by European regulations. The total reserves available to the Crisis Resolution Fund, which was set up in 2016 as of the date of release of this annual report, are nearly CZK 17 billion. In 2019, the readiness of the Financial Market Guarantee System for crisis situations was confirmed by a comprehensive stress test performed according to the

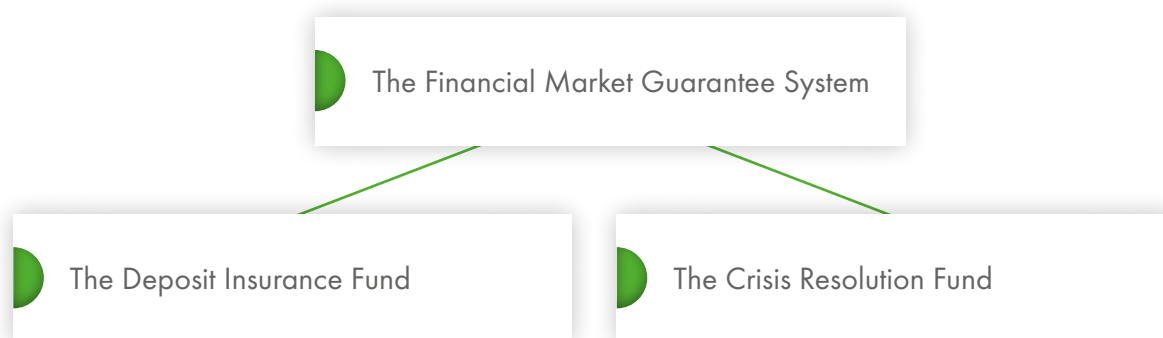
requirements of the European Banking Authority (EBA). The continued satisfactory condition of the banking sector was also confirmed by the Czech National Bank stress tests based on financial data as of 30 September 2019. In 2019, the Czech Republic's banking sector posted a net profit of CZK 91 billion, a year-on-year increase of 11%, and the capital adequacy of credit institutions supervised by the Czech National Bank remained some margin above the regulatory minimum of 8%. Over recent years, the regulatory authorities, the Financial Market Guarantee System, and the financial institutions themselves have devoted considerable efforts to prepare for potential future crises. All of this will now help us cope with the negative impacts of the crisis associated with this pandemic.

## II STRUCTURE OF THE FINANCIAL MARKET GUARANTEE SYSTEM

The Financial Market Guarantee System is a statutory institution to secure, manage and use financial resources intended to ensure and maintain the stability of the financial market in the Czech Republic. The Financial Market 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 Financial Market Guarantee System has fully performed all the duties and functions of the former Deposit Insurance Fund, and also manages the new Crisis Resolution Fund, which was set up in early 2016. The Deposit Insurance Fund and the Crisis Resolution Fund are accounting units of the Financial Market Guarantee System and, unlike the Financial Market Guarantee System, they do not have legal personality.

### Accounting Units



The first pillar of the Financial Market Guarantee System is the Deposit Insurance Fund. If the Czech National Bank (CNB) 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 Financial Market 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 savings banks and cooperative credit unions (“insured institutions”) must make regular annual contributions to the Deposit Insurance Fund.

The second pillar of the Financial Market Guarantee System is the Crisis Resolution Fund. 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 liquidation of the financial institution is impracticable and not credible, and where the resolution of the crisis is in the public interest. Contributions to the Crisis Resolution Fund are made by institutions already participating in the deposit insurance system, and by some investment firms, also on a regular annual basis.

## III AUTHORISED REPRESENTATIVE

### Bodies of the Financial Market Guarantee System

The supreme body of the Financial Market 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. At the beginning of 2019, the term of office expired for Mr Vladimír Staňura, who was reappointed as a member of the Board of Directors for a period of 5 years.

The statutory body of the Financial Market Guarantee System, which ensures the activity of the Financial Market 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 Financial Market Guarantee System.

#### Members of the Board of Directors of the Financial Market Guarantee System in 2019

##### 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

##### **Vladimír Staňura**

*Term of office: until 2024*

Advisor to the President of the Czech Banking Association

At the beginning of 2020, the term of office expired for Ondřej Landa, a member of the Board of Directors. Alex Ivančo, a department head at the Ministry of Finance of the Czech Republic, was appointed as a new member of the Board of Directors for a 5-year term. Karel Bauer was concurrently reappointed Vice-Chairman of the Board of Directors for another five-year term.

#### Members of the Management Board of the Financial Market Guarantee System in 2019

##### Chairperson

##### **Renáta Kadlecová**

Executive Director

##### Member

##### **Tomáš Hejduk**

Chief Legal Manager

##### **Roman Kahánek**

Finance Manager

## IV ACTIVITY OF THE FINANCIAL MARKET GUARANTEE SYSTEM IN 2019

### Macroeconomic Developments in the Czech Republic in 2019, Macroeconomic and Regulatory Environment of the Insured Institutions

2019 can be viewed as a continuation of the economic success from the previous period, although there was a deceleration in growth compared to 2018. In an environment of signals of an economic slowdown on the one hand and mounting inflationary pressures on the other, the Czech National Bank (CNB) raised interest rates only once. The banking sector as a whole confirmed its (for the time being) satisfactory state. As in 2018, the CNB responded to growing indications of possible systemic risk impacts by adopting specific measures in the field of supervision, monetary policy and financial stability instruments.

In 2019, gross domestic product grew<sup>1</sup> by 2.4%, which is a decrease of 0.4 percentage points compared to 2018. The growth dynamics of the Czech economy gradually declined during 2019.

Last year, the state budget of the Czech Republic<sup>2</sup> recorded a deficit of CZK 28.5 billion, which is CZK 11.5 billion less than the CZK 40 billion target approved by the Parliament. Compared to the slight surplus of CZK 2.9 billion for 2018, this is a year-on-year deterioration of CZK 31.4 billion and the worst budgetary result in the past four years. Last year, total state budget revenues increased by CZK 119.3 billion year on year to CZK 1,523.2 billion. Total budget expenses were up CZK 150.8 billion to CZK 1,551.7 billion. On the revenue side, the budget registered a year-on-year increase in total tax revenues, including social and health insurance, of CZK 74 billion. However, total revenues were lower than planned.

The general unemployment rate slightly increased by 0.1 percentage points on a year-on-year basis to 2.1%. According to Eurostat data, the seasonally unadjusted unemployment rate stood at 1.9% in December 2019, the lowest figure in the EU, as it was in 2017 and 2018.

The average annual inflation rate<sup>3</sup> for 2019 was 2.8% (2018: 2.1%), the second-highest figure in the past 11 years. The inflation rate, expressed as the increase in the consumer price index compared to the same month of the previous year, was 3% in December 2019 (2018: 2%). The year-on-year increase in the price level was mainly driven by housing prices, followed by prices of food and non-alcoholic beverages. The mounting inflationary pressures and inflation expectations were an important factor behind the CNB's decision on interest rates.

Compared to 2018, the CNB raised its interest rates only once in 2019: at its meeting of 2 May 2019, it increased the two-week repo rate (the 2W repo rate) by 25 basis points to 2%, the Lombard rate to 3% and the discount rate to 1%. In the remaining months of 2019, the CNB kept its interest rates unchanged. This was accompanied by contradictory market expectations caused by an ambivalent situation: the growing likelihood of an economic downturn on the one hand and the mounting inflationary pressures on the other.

As early as in 2017, there were stronger signs of systemic risks related especially to rising real estate prices, posing a potential threat of the real estate bubble bursting. In response to these developments, the CNB<sup>4</sup> issued, back in 2017, the first non-binding recommendation on the management of risks associated with the provision of mortgage loans secured by residential property<sup>5</sup>. With effect from 1 October 2018, the CNB further specified and tightened its 2017 recommendation<sup>6</sup>, introducing a 90% LTV ceiling and recommending that new loans with an LTV in the 80-90% range may not account for more than 15% of the total new production, and putting upper limits on the DTI<sup>7</sup> and DSTI ratios of 9% and 45% respectively<sup>8</sup>.

<sup>3</sup> Data from the Czech Statistical Office.

<sup>4</sup> On this issue the CNB has also published Supervisory Official Statement No. 1/2017.

<sup>5</sup> By setting a lower LTV ratio limit and by cautiously assessing the client's ability to repay (the ratio between a mortgage provided for the acquisition of a property and the appraised value of such property, i.e. loan to value).

<sup>6</sup> Official Information of the Czech National Bank of 12 June 2018

<sup>7</sup> The ratio of the client's total debt to total annual taxable income ("debt to income").

<sup>8</sup> The ratio of annual expenses resulting from the client's total debt to total annual taxable income ("debt service to income").

<sup>1</sup> Data from the Czech Statistical Office.

<sup>2</sup> Data from the Czech Statistical Office and the Ministry of Finance.



“In the first half of 2019, most banks continued to comply with the LTV limit predominantly in accordance with the recommendation currently in force. Providers adapted themselves to the DTI and DSTI limits with a delay and began to comply with them in the first half of this year. The CNB responds to the risks associated with inadequate compliance with the recommendations and prudential rules of risk management – and is ready to continue to do so – through an additional capital requirement for covering the relevant risks under the SREP (Supervisory Review and Evaluation Process)”<sup>9</sup>.

With regard to the growing trend of buying real estate for investment and renting, the CNB issued, with effect from 1 December 2019, a recommendation<sup>10</sup> concerning the granting of “additional” mortgages that may be for investment: two types of “additional” mortgages should be distinguished and monitored separately, and the property and income situation of clients applying for “additional” mortgages should be carefully evaluated. Nevertheless, the above-mentioned recommendations are not legally binding and the CNB has been trying to obtain legal powers since as early as 2018.

In 2019, the Czech Republic’s banking sector posted a net profit of CZK 91 billion, a year-on-year increase of 11%. This result was mainly driven by a year-on-year increase in net interest income (+12%) supported by high interest rates<sup>11</sup> and the continued economic growth, which was, however, slower than in the previous year. The trend of year-on-year declines in impairment losses continued (by 37% year on year). The average capital ratio of the sector at the end of 2019 stood at 21.28% (a year-on-year increase of 1.6 percentage points).

The continuing good condition of the banking sector was also confirmed by the CNB stress tests based on financial data as of 30 September 2019. However, the tests revealed more significant potential vulnerabilities in the sector should cyclical risks materialize than in 2018. “The theoretical unfavourable economic developments within the macro-stress test with a five-year horizon were reflected in a significant decline in the sector’s capital ratio by 9.4 percentage points to 10.8%. Despite the high stress, the capital ratio remained well above the 8% regulatory minimum. However, if banks did not have capital above the regulatory capital requirements of

4 percentage points at the beginning of the test, the sector’s capital ratio would decrease below the regulatory minimum, which highlights the need for an adequate level of capital reserves intended for covering cyclical risks, a reasonable dividend policy and prudential assessment of the impact of the development of voluntarily held capital surpluses on the resilience of the banking sector”<sup>12</sup>.

Apart from the aforementioned voluntary capital surpluses, the so-called countercyclical capital buffer (CCyB), which has been set by the Czech National Bank at the same level for all banking institutions under its supervision, serves as a regulatory buffer to capture any increased impact of cyclical risks. At its meeting of 28 November 2019, the CNB Bank Board decided to keep the CCyB rate at 2.0%. The CNB also stated it was ready to gradually reduce or even outright release the rate in the event of a rise in risks and an increase in risk weights. The decision to increase countercyclical reserves to 1.75% from January 2020<sup>13</sup> and to 2.0% from July 2020<sup>14</sup> was made by the CNB Bank Board at its previous meetings dealing with financial stability issues.<sup>15</sup>

2019 was the second year of use of the IFRS9 accounting standard for asset classification according to the principles of already incurred losses (non-performing loans) and, in particular, expected losses (the “forward-looking view”, performing loans, stages 1 and 2). However, the classification of the loan portfolio and the creation of loan loss provisions on the basis of expected losses (i.e. the “forward-looking view”, stages 1 and 2) may not sufficiently conservatively reflect the real and likely expected portfolio quality, including sufficient provisioning for future potential losses. “The development of the coverage ratio of performing and non-performing loans reflects a period of favourable economic developments, when there are only limited occurrences of loan defaults, the volume of non-performing loans from previous years has been gradually declining and expectations about future developments – and thus also expected loan losses – remain optimistic. The level of provisioning during the current cycle phase thus increases the potential for the cliff

<sup>9</sup> *Risks to Financial Stability and Their Indicators - December 2019, page 8.*

<sup>10</sup> *The CNB recommendation on the management of risks associated with the provision of retail loans secured by residential property of 13 December 2019.*

<sup>11</sup> *Including reverse repo operations with the CNB.*

<sup>12</sup> *CNB: Risks to Financial Stability and Their Indicators - December 2019, page 6.*

<sup>13</sup> *Decided at the CNB Bank Board meeting of 29 November 2018.*

<sup>14</sup> *Decided at the CNB Bank Board meeting of 23 May 2019.*

<sup>15</sup> *As part of measures to mitigate the impact of the situation caused by the coronavirus epidemic on Czech companies, entrepreneurs and households. At its extraordinary meeting of 16 March 2020, the CNB Bank Board also revised its previous decision from May 2019 to increase the countercyclical capital reserve (buffer) for exposures situated in the Czech Republic to 2% with effect from 1 July 2020. This decision means that banks will continue to maintain the currently effective rate of this reserve at 1.75%.*

effect<sup>16</sup> and credit loss amounts<sup>17</sup>, which may result in substantial losses, potentially leading to a significant capital decline.

In 2019, cooperative credit unions recorded a loss of CZK 38.3 million (in 2018, the sector posted a loss of CZK 33.2 million). At the end of last year, the share of non-performing exposures in the total portfolio was 16%, which, in spite of a year-on-year decrease of 7 percentage points, compared to the banking sector, where this figure stands at 1.29%, still testifies to a significant difference in the quality of assets in the balance sheets of these two sectors. The average capital ratio was 29.14%. 2019 was the fourth year in which the provisions of the amendment to the Act on Credit Unions were in force for the whole of the year<sup>18</sup>. At the beginning of 2018, the remaining and quite significant provisions of the amendment came into force, limiting the maximum aggregate exposure to economically connected persons or related parties to CZK 30 million and capping the total assets at CZK 5 billion. At the end of 2018, Moravský peněžní ústav was given the green light by the Czech National Bank to change its legal form from a cooperative credit union to a joint-stock company and was granted a banking licence. The transformation of this credit union into a bank took effect on 1 January 2019.

## Information Technologies and Security

As regards the IT field, 2019 saw the implementation of improvements to the Disaster Recovery process. Apart from providing a backup worksite with a higher level of security, a solution was provided with better values for the RTO parameter (Recovery Time Objective – the time required to make the affected service/application available again) and the RPO parameter (Recovery Point Objective – the time from which the last data backup is available).

2019 also saw the second round of the three-year IT audit cycle for the 2018–2020 period. Based on recommendations from

the IT audit, adjustments were made to some processes and system configurations to improve security, and a solution was deployed to increase the protection of the mail server against spam and virus attacks.

The Electronic Registry Service software was supplemented with support for automated screening of clients receiving disbursements according to the Insolvency Register.

## International Cooperation

The Financial Market Guarantee System is 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 Financial Market Guarantee System also bilaterally cooperates with similar organisations, both in the EU and globally.

In 2019, within the framework of the European Forum of Deposit Insurers (EFDI), officials of the Financial Market Guarantee System took part in meetings of EFDI committees and working groups, e.g. the EU Committee, the Communications and Public Relations Committee, the Banking Union Working Group, the Stress-Test Working Group, etc. At the meetings of these committees and working groups, employees of the Financial Market Guarantee System presented their experience, e.g. with the completed stress test of operating capabilities and financial readiness.

Just as in the previous year, there was intensive cooperation within the European Forum of Deposit Insurers between deposit insurance systems from EU Member States, focusing primarily on regulating the conditions of cross-border compensation of claims from deposits, as implemented by Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes. Following the conclusion of the multilateral agreement on cross-border cooperation prepared by the European Forum of Deposit Insurers, joined by the Financial Market Guarantee System on 29 September 2016, bilateral specifications supplementing and detailing the conditions of this agreement were concluded in 2019 with deposit insurance schemes from Poland, Austria and Slovakia. At the same time, work continued in renewed working sub-groups which prepared the text of the multilateral agreement and now intend to revise and possibly further complete the multilateral agreement and the related documentation. Representatives of the Financial Market Guarantee System are involved in working sub-groups

<sup>16</sup> CNB: *The cliff effect is a situation where banks will be forced to create extensive provisions over a relatively short time span in the event of a change in economic conditions and the subsequent materialization of credit risks. For more see Box 3.2 in ZFS 2018/2019.*

<sup>17</sup> CNB: *Risks to Financial Stability and Their Indicators - December 2019, page 27.*

<sup>18</sup> *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.*

responsible for the issues of financing, communication and legal affairs.

The main issue discussed by the International Association of Deposit Insurers (IADI) in 2019 was the further direction of the organization and the activities on which the organization should focus. In addition, it was proposed to modify the amount of contributions, which so far have been the same for all members and which should now reflect the total GDP and GDP per capita of the country of origin of the relevant member deposit insurance scheme. The general meeting at which the proposed modification was finally narrowly approved, and the associated annual conference this time took place in Istanbul, Turkey. The topic of the conference was "Realizing Reforms: What has Changed in Deposit Insurance Systems since the Crisis?" Over the year, there were numerous other conferences and regional seminars, such as the executive committee meeting in Almaty, Kazakhstan, which was accompanied by a conference focusing on public relations and financial education, and a workshop held in Tirana, Albania, which was devoted to crisis management and planning.

Representatives of the Financial Market 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 tasks of the resolution colleges are to create group plans for crisis resolution and, in the event of a resolution situation, to exercise the appropriate decision-making powers.

Last but not least, officials of the Guarantee System also participated in the intensive negotiations of the EBA Task Force, a working group of the European Banking Authority whose task was an expert debate on the current wording of and possible amendments to Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes. The outcome of the negotiations of this working group is three opinions with detailed recommendations (the EBA Opinions) which are thematically focused on: (1) the eligibility of deposits, the amount of insurance and cooperation between individual deposit insurance schemes, (2) the process of reimbursement of compensation for deposits, and (3) the financing of deposit insurance schemes. All three opinions are available online on the website of the European Banking Authority.<sup>19</sup>

## Investment Activities

The Financial Market 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 different methods of use determined by Act No. 21/1992 Coll., on Banks, as amended, Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended, and Commission Delegated Regulation (EU) 2015/63 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements. The Financial Market Guarantee System can only invest resources in managed funds in a safe manner in accordance with statutory requirements, the Statute of the Financial Market Guarantee System, the Statutes of the individual managed funds, and other internal rules of the Financial Market Guarantee System.

Through long-term and short-term investment strategies, the investment policy determines the method of investing financial reserves. 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 2019 is contained in Chapters VI. Role and Activities in Deposit Insurance in 2019 and VII. Role and Activities in Crisis Resolution in 2019.

## Reporting Method

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

<sup>19</sup> <https://eba.europa.eu/regulation-and-policy/recovery-and-resolution>

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

In accordance with Section 18 (1) (a) of Act No. 106/1999 Coll., on Free Access to Information, as amended, the Financial Market Guarantee System informs that in 2019 no requests for the provision of information were delivered to it.

In accordance with Section 18 (1) (b) to (f) of Act No. 106/1999 Coll., on Free Access to Information, as amended, the Financial Market Guarantee System also states that 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 2019

### Role in Deposit Insurance

The role of the Financial Market 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 Financial Market Guarantee System manages resources in the Deposit Insurance Fund 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 the following paragraph - Legislation). As of 31 December 2019, deposits at banks, building savings banks and cooperative credit unions that complied with the insurance conditions totalled CZK 3.99 trillion. A total of 32 financial institutions that held such insured deposits contributed CZK 1,076 million to the Deposit Insurance Fund in 2019.

### Legislation

Activity in deposit insurance is governed by Section 41a to Section 41s 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 savings banks and cooperative credit unions (insured institutions) must participate in a deposit insurance system and contribute to the Deposit Insurance Fund within the scope stipulated by the Act.

Pursuant to Section 41c 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 41c (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 of banks, branches of banks from other than a Member State, 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 a 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 Financial Market 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, of which a consequence is the suspension of depositors' right to dispose of deposits covered by the insurance (the "Decisive 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 basic compensation to a beneficiary has been EUR 100,000. The disbursement of the basic compensation for deposits must commence within 7 business days after the Decisive Day.

The Act on Banks permits that in exceptional cases it is possible to disburse higher compensation beyond the basic insurance limit for the so-called "temporarily high balances". Nevertheless, these may be disbursed only in cases specified by law (e.g. if the deposit concerns the sale of immovable property serving for residential purposes, the settlement of 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 Decisive 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).

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 contribution is calculated from the volume of the so-called covered deposits (i.e. deposits up to the insurance limit corresponding to an equivalent of EUR 100,000).

Insured institutions pay contributions once a year, by 30 June of the given year.

Since 1 January 2016, there has also been simplified access to compensation for deposits for clients of 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 Financial Market 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 April and May and in October and November 2019, the Financial Market Guarantee System successfully verified the functionality of the system for disbursing compensation for deposits as required by Section 41n (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 Bank from Other Than a Member State are Obligated to Maintain and Must be Provided to the Financial Market Guarantee System, as amended with effect from 1 January 2017, the Financial Market Guarantee System in both cases successfully tested the client data of all financial institutions participating in the deposit insurance system. In the spring term, a total of 32 entities were tested, namely 19 banks, 5 building savings banks and 8 cooperative credit unions. In the autumn term, a total of 33 entities were tested. The client data of the local branch of Industrial and Commercial Bank of

China was tested for the first time, as this branch is obligated to participate in the deposit insurance scheme in the Czech Republic because the bank is headquartered outside the EU.

### Stress Test

In April 2017, in line with the general instructions on stress tests of deposit insurance schemes according to Directive 2014/49/EU (EBA/GL/2016/04), the Stress Test Program of the Financial Market Guarantee System was sent to the European Banking Authority (EBA). The tests were scheduled over a five-year period to 2021. 2019 saw the performance of the Comprehensive Test of Operating Capabilities and Financial Readiness.

The Test of Operating Capabilities was mainly focused on crisis communication, the technical processes of the preparation of deposit compensation disbursements, decision-making processes and the mechanisms of information exchange between institutions of the so-called financial safety net when dealing with a fictitious crisis situation in the financial sector. As regards the test of financial readiness, the test was intentionally scripted to help in thoroughly verifying, setting and finetuning of all decision-making, technical and coordination processes necessary to financially secure deposit compensation disbursements while using own and additional sources of funding. Important external institutional participants in the test included the Czech National Bank, the Ministry of Finance of the Czech Republic and selected banks.

The tests performed enabled the specification of some procedures especially in areas that have not yet passed a real

test, such as processes associated with the evaluation of applications for the disbursement of increased compensation for temporarily high balances, the procedure for prescribing extraordinary contributions or organizing a bond auction through the Bloomberg system.

### Disbursements of Compensation for Deposits

Resources from the Deposit Insurance Fund may be drawn, pursuant to Section 41a (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, as amended. Since its establishment, the Financial Market 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 45.66 billion as of 31 December 2019.

From the beginning of 2019, the Financial Market Guarantee System carried on with previously commenced disbursements of compensation for deposits to clients of ERB bank, a.s. In 2019, the Financial Market Guarantee System disbursed to clients of this former bank total compensation of CZK 5.94 million. Subsequently, upon expiry of the three-year statutory period in October 2019, the disbursement of deposit compensation to clients of ERB bank, a.s. was terminated.

**Table 1 Compensation Disbursed from the Deposit Insurance Fund to 31 December 2019**  
(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.**	6,394.40	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, spořitelní a úvěrní družstvo	1,805.96	23/7/2012
Úvěrní družstvo PDW, Praha	20.14	11/3/2013
Metropolitní spořitelní družstvo	12,014.98	27/1/2014
WPB Capital, spořitelní družstvo	2,780.45	14/10/2014
ERB bank, a. s.	3,508.49	20/10/2016
<b>Total</b>	<b>45,659.15</b>	

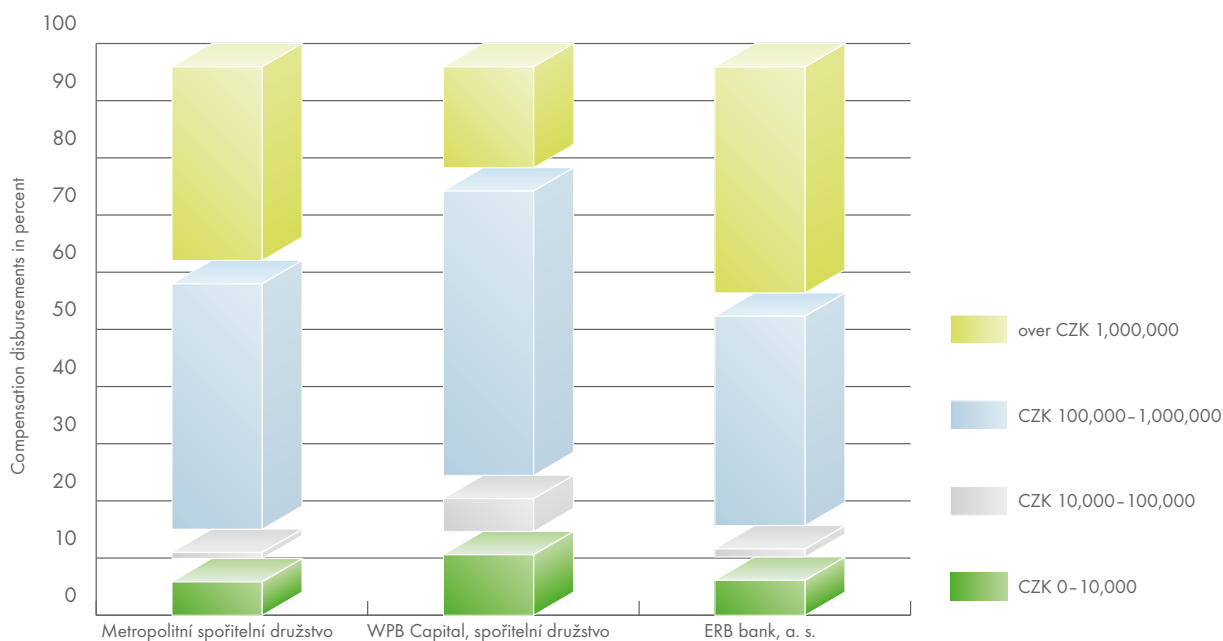
\* disbursement of additional compensation commenced on 8/6/1998

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

The Financial Market 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 similar to that of the previous case of disbursement to clients of WPB Capital, spořitelní družstvo. Clients received the greatest volume of compensation in the first and second months from commencement (ERB bank, a. s. 52%, WPB Capital, spořitelní družstvo 54% of all beneficiaries). Compared to the situation during the disbursement of compensation for Metropolitní spořitelní družstvo (the payment of 93% of beneficiaries in the

first two months), this was however a slower start. As regards the amount of disbursed deposit compensation in the case of the last three disbursed banks, a structural breakdown of these disbursements is shown in Graph 1. While in the case of Metropolitní spořitelní družstvo and ERB bank, a. s. the structural breakdown of the number of compensation disbursements in terms of their amount is very similar (for ERB bank, a.s. there is a slightly higher share of disbursements over CZK 1 million – more than 40%), as regards WPB Capital, spořitelní družstvo, there is a clearly evident higher share of lower disbursements not exceeding CZK 1 million (almost 80%).

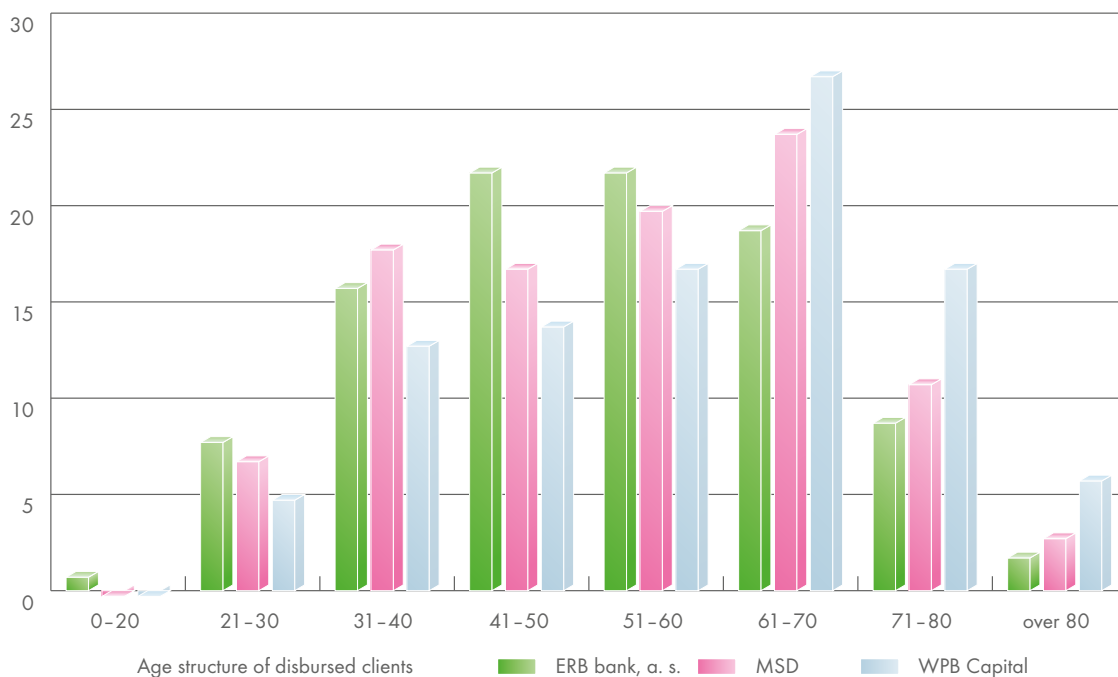
Graph 1 Structure of the number of compensation disbursements by amount



What is also interesting is to look at the age structure of clients (individuals) in the last three cases of compensation disbursements. The largest share of clients of cooperative credit unions (Metropolitní spořitelní družstvo and WPB Capital, spořitelní družstvo) is represented by the older generation

between 61 and 70 years of age, while in the case of ERB bank, a. s., the largest share of clients is made up by those who are in later stages of their working lives, i.e. people aged 41 to 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 Financial Market 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 been completed in nine cases, and liquidation has been completed in one. Of the total amount of disbursed compensation of deposits, which reached CZK 45,659.15 million as of 31 December 2019, CZK 43,634.76 million of the Financial Market 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 when registering them the Financial Market Guarantee System (under its original name the Deposit Insurance Fund) 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 Financial Market Guarantee System (under its original name the Deposit Insurance Fund) disbursed this additional compensation, was adopted after the expiry of the relevant deadlines. Therefore, the Financial Market Guarantee System did not succeed with its request for the recognition of these claims even in the subsequent adversary proceedings.

The table below shows a summary of the Financial Market Guarantee System claims against the individual banks and cooperative credit unions as registered as of 31 December 2019 for the purposes of bankruptcy and insolvency proceedings and the liquidation process of the disbursed banks and cooperative credit unions. Of the total of CZK 37,353.54 million in registered claims, a preliminary distribution schedule has been drawn up for four banks and two cooperative credit unions.

As of 31 December 2019, the Financial Market Guarantee System registers CZK 25,847.61 million in receivables due from banks.

**Table 3** Overview of Registered Receivables in Bankruptcy and Liquidation Proceedings as of 31 December 2019

(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	0.03	0.20
Moravia banka, a. s.	regular	4,753.70	1,281.40	3,472.30
Union banka, a. s.	regular	12,416.54	4,966.62	7,449.92
UNIBON, spořitelní a úvěrní družstvo	regular	1,806.58	495.54	1,311.04
Úvěrní družstvo PDW, Praha	regular	20.97	0.00	20.97
Metropolitní spořitelní družstvo	regular	12,021.48	4,062.34	7,959.14
WPB Capital, spořitelní družstvo	regular	2,799.88	0.00	2,799.88
ERB banka, a. s.	regular	3,534.16	700.00	2,834.16
<b>Total</b>		<b>37,353.54</b>	<b>11,505.93</b>	<b>25,847.61</b>

As concerns bankruptcy proceedings completed by the end of 2019, 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., Česká banka, a. s., Velkomoravská banka, a.s., and Universal banka a.s., and composition as part of the completed liquidation of Vojenská družstevní záložna. The bankruptcy

proceedings of Realitbanka, a. s. were terminated because of lack of assets. Thus, the Financial Market Guarantee System had no more registered claims against these nine banks and one cooperative credit union as of 31 December 2019.

A summary of these claims in completed bankruptcy and liquidation proceedings, including revenues received and recovery rates achieved, is shown in the table below.

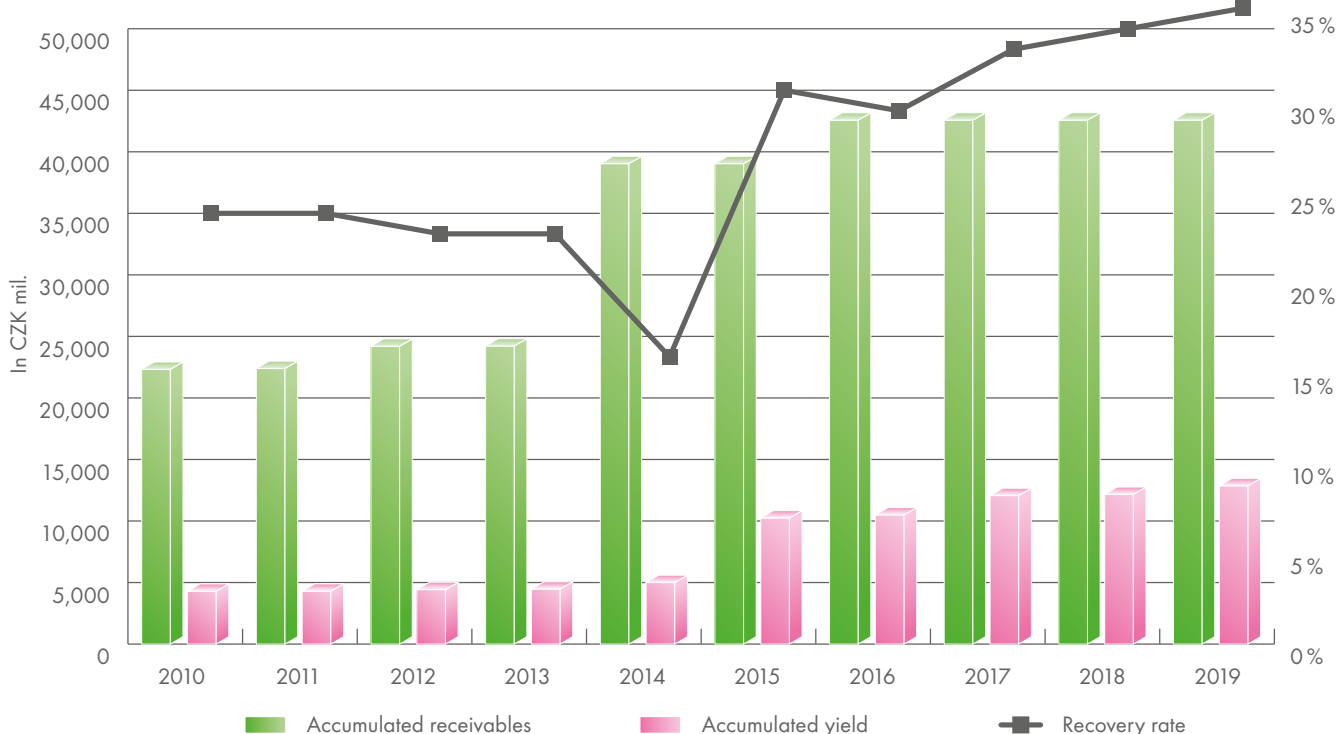
**Table 4** Summary of the Proceeds of Receivables against the Insured Institutions in Completed Bankruptcy and Liquidation Proceedings as of 31 December 2019

(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
Velkomoravská banka, a. s.	regular	1,006.63	224.31	22.28
Universal banka, a. s.	regular	1,862.64	788.72	42.34
<b>Total</b>		<b>6,281.22</b>	<b>1,952.85</b>	<b>31.09</b>

\* 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 the Recovery Ratio of Receivables From 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 2019, the insured institutions paid contributions to the Deposit Insurance Fund totalling CZK 1,076 million. 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. Since its establishment in 1994, the Deposit Insurance Fund has received a total of CZK 58,115.87 million in contributions. The table below shows a summary of the contributions received by the Deposit Insurance Fund over the past 10 years.

**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.
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
2017	940.65
2018	1,003.03
2019	1,075.67
<b>Total</b>	<b>28,079.74</b>

\* 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, contributions to the Deposit Insurance Fund have been annual; 2016 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 the financial reserves of the Deposit Insurance Fund at the end of 2019 reached CZK 34,065.41 million. In 2019, the volume of the financial reserves of the Deposit Insurance Fund increased by CZK 2,381.53 million, with this increase being significantly driven mainly by income from the contributions received from financial institutions, which amounted to CZK 1,075.67 million, income from bankruptcies and liquidations, amounting to CZK 700 million, and income from financial reserves, totalling CZK 629.48 million.

The financial reserves of the Deposit Insurance Fund have been divided into three portfolios: the short-term portfolio, the portfolio of securities held to maturity (the HTM portfolio), and the newly established portfolio of available-for-sale securities (the AFS portfolio). All the portfolios are managed by the Financial Market Guarantee System.

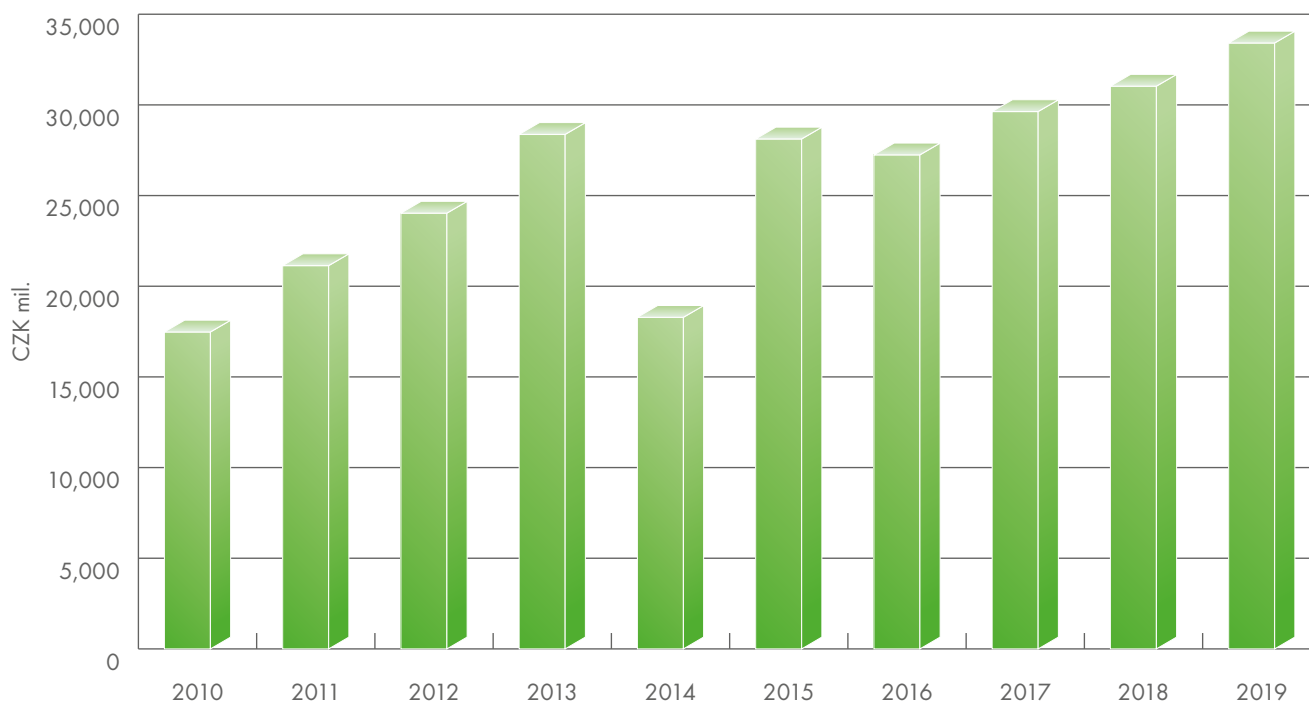
Just as in the previous year, 2019 saw an increase in the volume of the short-term portfolio. This increase totalled CZK 2,384.44 million. The transfer to the short-term portfolio involved especially the new financial resources (received contributions, income from bankruptcies and liquidations and

other income). At the end of 2019, the volume of the short-term portfolio stood at CZK 30,857.24 million and thus accounted for 90.6% of the total reserves of the Deposit Insurance Fund. During the year, the financial reserves managed under the short-term portfolio were invested mainly in short-term repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or by the Czech National Bank.

In 2019, the HTM portfolio was maintained by reinvestments made at roughly the same level as in the previous year. In 2019, the volume of the HTM portfolio decreased by maturing bonds with a nominal value of CZK 883.4 million, but, at the same time, new bonds with a nominal value of CZK 800 million were purchased for this portfolio. The total value of the HTM portfolio reached CZK 3,108.48 million by the end of 2019, accounting for 9.1% of the financial reserves of the Deposit Insurance Fund.

2019 saw the establishment of the AFS portfolio, for which bonds with a nominal value of CZK 100 million were purchased. The total value of the AFS portfolio had reached CZK 99.68 million by the end of 2019, accounting for 0.3% of the Fund's financial reserves.

**Graph 6 Development in the Volume of Financial Reserves in the Deposit Insurance Fund 2010–2019**



At the end of 2019, 90.6% of the financial reserves of the Deposit Insurance Fund was made up by short-term funds (deposits, repo operations with treasury bills issued by the Ministry of Finance of

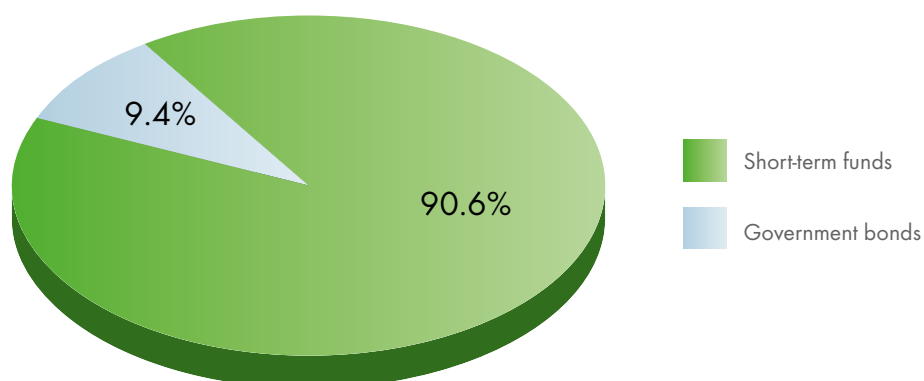
the Czech Republic and by the Czech National Bank) and 9.4% was comprised of domestic government bonds issued by the Ministry of Finance of the Czech Republic.

**Table 6 Structure of Financial Reserves by Instrument, as of 31 December 2019**

Type of instrument	Value in CZK mil.
Current accounts, term deposits, buy/sell and repo operations, receivables *	30,857.24
Bonds:	3,208.17
of which: Treasury bills	0.00
Government bonds	3,208.17
<b>Total</b>	<b>34,065.41</b>

\*Receivables arising from financial transactions and unpaid coupons

**Graph 7 Structure of Financial Reserves by Instrument, as of 31 December 2019**



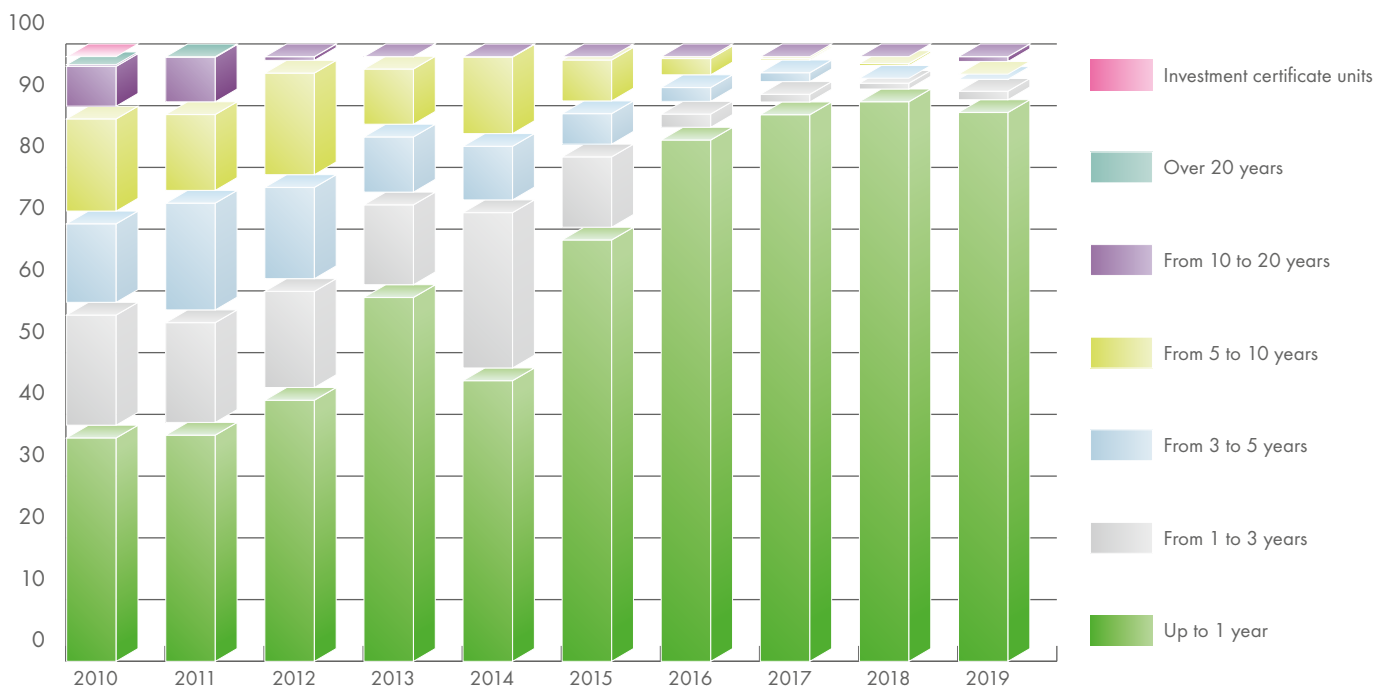
Instruments maturing within 1 year made up the largest share (91%) in the total volume of financial reserves, and the remaining portion of the portfolio is divided by maturity among

instruments maturing in 1 to 3 years (3.4%), 3 to 5 years (1.9%), 5 to 10 years (0.8%) and 10 to 20 years (2.9%).

**Table 7** Structure of Financial Reserves by Maturity, as of 31 December 2019

Instrument maturity	Value in CZK mil.
Up to 1 year	30,988.05
From 1 to 3 years	1,169.26
From 3 to 5 years	654.59
From 5 to 10 years	286.82
From 10 to 20 years	966.69
<b>Total</b>	<b>34,065.41</b>

**Graph 8** Development of the Financial Reserve Structure by Maturity



The total gross appreciation of Deposit Insurance Fund financial provisions for 2019 was 1.92% p.a., i.e. approximately CZK 629.48 million.

## Main Cash Flows of the Deposit Insurance Fund – History

**Table 8** Summary of Income and Expenditure for 1994–2019  
(in CZK mil.)

<b>I</b>	<b>Income</b>	<b>83,450.90</b>
	Contributions from banks and cooperative credit unions	59,292.15
	Income from judicial composition and bankruptcy proceedings	13,459.79
	Refunds of disbursed compensation	130.43
	Returned advance payments of non-disbursed compensation	89.66
	Interest received and other revenues	7,478.07
	- investment revenue	7,371.43
	- other financial revenue	106.64
	Loans received	3,000.00
	Operating costs of the Crisis Resolution Fund <sup>1)</sup>	0.80
<b>II</b>	<b>Expenditure</b>	<b>49,370.92</b>
	Compensation for deposits disbursements	45,829.47
	Operating costs	420.29
	Interest paid	121.16
	Loan repayments	3,000.00
<b>III</b>	<b>Difference between income and expenditure</b>	<b>34,079.98</b>

Note: <sup>1)</sup> In 2019, the Crisis Resolution Fund provided funding from the Operational Fund to cover operating costs which exceeded the actual costs by CZK 801,752.27. The resulting receivable will be settled after approval of the financial statements.



## VII ROLE AND ACTIVITIES IN CRISIS RESOLUTION IN 2019

### 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 deposits. The purpose of the Crisis Resolution 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 Financial Market Guarantee System in crisis resolution is governed by Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended (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 Financial Market 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 especially by Section 209 et seq. 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 or, as the case may be, funds transferred from the Operational Fund;
- ▶ 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 Contribution Fund of 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 savings banks), but also by some investment firms. Based on an amendment to the Act on Recovery Procedures, effective from 1 October 2018, an appeal against the Czech National Bank's resolution on defining the amount of the contribution does not have suspensive effect.

Resources from the Contribution Fund of 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. The amendment to the Act on Recovery Procedures, effective from

1 October 2018, also further specified the methods of use of assets in the Crisis Resolution Fund and, in this context, a partial change was made to the Statute of the Crisis Resolution Fund.

If the Deposit Insurance Fund participated in dealing with a crisis within the meaning of Section 221 of the Act on Recovery Procedures, the amendment to the Act on Recovery Procedures and to Act No. 182/2006 Coll., the Insolvency Act, effective from 1 October 2018, stipulates that on the basis of this participation the Financial Market Guarantee System would then become a creditor of the obligated party and its claim would have a priority position in the insolvency hierarchy.

### 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 Financial Market Guarantee System, in accordance with Commission Delegated Regulation (EU) 2015/63 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements. 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 2019 was set by the Czech National Bank in the amount of CZK 3,446.58 million. The objective is that the Crisis Resolution Fund will accumulate approximately CZK 33 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

The value of financial reserves managed in the Crisis Resolution Fund reached CZK 12,820.99 million at the end of 2019. The total volume of contributions received this year to the Crisis Resolution Fund from financial institutions amounted to CZK 3,446.58 million, thus representing the main source of income. This amount was then completed with income from financial reserves for 2019, which was CZK 209.93 million.

During the year, the financial reserves were invested as part of the short-term portfolio in short-term repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or the Czech National Bank. Thus, the performance of this portfolio was influenced by the level of the main two-week repo rate, which is reflected in money market yields. In 2019, the CNB raised this rate once. This hike of 0.25 basis points to 2.0% took effect in early May.

The total gross appreciation of Crisis Resolution Fund financial provisions for 2019 was 1.82% p.a., i.e. approximately CZK 209.93 million.

## Main Cash Flows of the Crisis Resolution Fund

**Table 9 Summary of Income and Expenditure for 2016–2019**  
(in CZK mil.)

<b>A. Contribution Fund</b>		
<b>I.</b>	<b>Income</b>	<b>12,541.86</b>
	Contributions from financial institutions	12,541.86
<b>II.</b>	<b>Expenditure</b>	<b>0.00</b>
<b>III.</b>	<b>Difference between income and expenditure</b>	<b>12,541.86</b>
<b>B. Operational Fund</b>		
<b>I.</b>	<b>Income</b>	<b>290.61</b>
	Interest received and other revenues	290.61
	- investment revenue	290.60
	- other financial revenue	0.01
<b>II.</b>	<b>Expenditure</b>	<b>11.49</b>
	Operating costs	10.69
	Funding provided for operating costs <sup>1)</sup>	0.80
<b>III.</b>	<b>Difference between income and expenditure</b>	<b>279.12</b>

Note: <sup>1)</sup> In 2019, the Crisis Resolution Fund provided funding from the Operational Fund to cover operating costs, which exceeded the actual costs by CZK 801,752.27. The resulting receivable will be settled after approval of the financial statements.

# VIII THE FINANCIAL MARKET GUARANTEE SYSTEM INDEPENDENT AUDITOR'S REPORT



## Independent auditor's report

to the Board of Directors of Garanční systém finančního trhu

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### Opinion

We have audited the accompanying financial statements of Garanční systém finančního trhu, with its registered office at Týn 639/1, Staré Město, Praha 1 ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2019, the income statement for the year ended 31 December 2019 and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance for the year ended 31 December 2019 in accordance with Czech accounting legislation.

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### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards 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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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### 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 of the Company, the financial statements of Fond pojištění vkladů and Fond pro řešení krize and auditor's reports therein. The Statutory Body 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 about the Company 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 and regulation, in particular, whether the other information complies with law and 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 and regulation.

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### Independent auditor's report

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 of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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### Responsibilities of the Statutory Body and the Board of Directors of the Company for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Statutory Body 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 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 either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors of the Company is responsible for overseeing the financial reporting process.

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### 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 the above-stated requirements 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-stated requirements, we exercise professional judgment and maintain professional scepticism 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 controls.
- Obtain an understanding of internal controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.
- 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 notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



**Independent auditor's report**

We communicate with the Statutory Body and the Board of Directors 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.

18 June 2020

*PricewaterhouseCoopers Audit, s.r.o.*  
represented by Director

*Eva Loulová*  
Eva Loulová  
Statutory Auditor, Licence No. 1981

This report is addressed to the Board of Directors of Garanční systém finančního trhu

**Note**

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

# 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 December 2019
Date of preparation of financial statements	18 June 2020

### Balance Sheet as of 31 December 2019 (CZK '000)

ASSETS	As of 1 January 2019	As of 31 December 2019
<b>A. Total fixed assets</b>	<b>2,308,785</b>	<b>3,079,295</b>
<b>I Intangible fixed assets – software</b>	<b>2,256</b>	<b>2,728</b>
<b>II Tangible fixed assets</b>	<b>1,366</b>	<b>2,074</b>
Works of art, objects and collections	259	320
Tangible assets and their sets	1,107	1,754
<b>III Total long-term investments</b>	<b>2,307,388</b>	<b>3,077,355</b>
Debt securities held to maturity	2,307,388	2,977,675
Miscellaneous long-term financial assets	0	99,680
<b>IV Total accumulated depreciation and amortisation of fixed assets</b>	<b>-2,225</b>	<b>-2,862</b>
Accumulated amortisation of software	-1,491	-1,924
Accumulated depreciation of machinery and equipment	-734	-938
<b>B. Total current assets</b>	<b>66,184,436</b>	<b>69,671,896</b>
<b>II Total receivables</b>	<b>27,636,194</b>	<b>25,862,221</b>
Operating advances paid	19	2
Other receivables	27,636,175	25,862,219
<b>III Total current financial assets</b>	<b>38,548,001</b>	<b>43,809,297</b>
Cash in hand	28	29
Stamps and vouchers	17	231
Financial resources on accounts	37,644,275	43,678,228
Other securities	903,681	130,809
<b>IV Total other assets</b>	<b>241</b>	<b>378</b>
Prepaid expenses	241	378
<b>Total assets</b>	<b>68,493,221</b>	<b>72,751,191</b>



## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2019</b>	<b>As of 31 December 2019</b>
<b>A. Total equity</b>	<b>68,469,884</b>	<b>72,746,565</b>
<b>I Equity</b>	<b>64,542,313</b>	<b>68,088,631</b>
Funds	64,542,313	68,089,090
Revaluation of assets and liabilities	0	-459
<b>II Total profit/loss</b>	<b>3,927,571</b>	<b>4,657,934</b>
Profit/loss account	395,476	803,141
Retained earnings	3,532,095	3,854,793
<b>B. Total liabilities</b>	<b>23,337</b>	<b>4,626</b>
<b>III Total current payables</b>	<b>23,337</b>	<b>4,626</b>
Payables to suppliers	915	76
Employees	1,745	1,794
Other payables to employees	5	5
Payables to social security and public health insurance institutions	722	775
Other direct tax liabilities	497	503
Other payables	18,977	9
Estimated payables	476	1,464
<b>Total equity and liabilities</b>	<b>68,493,221</b>	<b>72,751,191</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

Profit and Loss Account for the year ended 31 December 2019  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I Consumed purchases and purchased services</b>	<b>13,668</b>	<b>0</b>	<b>13,668</b>
1. Consumption of material	344	0	344
3. Repairs and maintenance	25	0	25
4. Travel expenses	947	0	947
5. Representation expenses	148	0	148
6. Other services	12,204	0	12,204
<b>III Personnel costs</b>	<b>18,464</b>	<b>0</b>	<b>18,464</b>
10. Wages and salaries	13,355	0	13,355
11. Statutory social security insurance	4,217	0	4,217
13. Statutory social expenses	656	0	656
14. Other social expenses	236	0	236
<b>IV Taxes and fees</b>	<b>88</b>	<b>0</b>	<b>88</b>
<b>V Other expenses</b>	<b>4,046</b>	<b>0</b>	<b>4,046</b>
19. Foreign exchange losses	22	0	22
22. Sundry other expenses	4,024	0	4,024
<b>VI Depreciation and assets sold, creation and use of provisions and adjustments</b>	<b>638</b>	<b>0</b>	<b>638</b>
23. Amortisation of intangible and depreciation of tangible fixed assets	638	0	638
<b>Total expenses</b>	<b>36,904</b>	<b>0</b>	<b>36,904</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV Other revenues</b>	<b>840,045</b>	<b>0</b>	<b>840,045</b>
5. Contractual penalties and late payment interest, other fines and penalties	40	0	40
7. Interest revenue	839,415	0	839,415
10. Sundry other revenues	590	0	590
<b>Total revenues</b>	<b>840,045</b>	<b>0</b>	<b>840,045</b>
<b>C. Profit/loss before tax</b>	<b>803,141</b>	<b>0</b>	<b>803,141</b>
<b>D. Profit/loss after tax</b>	<b>803,141</b>	<b>0</b>	<b>803,141</b>

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Financial Market 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 Financial Market 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

## Financial Statements

Year ended 31 December 2019

1 **D** General Information

The Financial Market Guarantee System is a legal person governed by public law, which was originally called the Deposit Insurance Fund, established by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. 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.

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 2019 was as follows:

<b>Name</b>	<b>Position</b>
Dušan Hradil	Chairman
Karel Bauer	Vice-Chairman
Ondřej Landa	Member
Vladimír Staňura	Member
Radek Urban	Member

At the beginning of 2020, the term of office expired for Ondřej Landa, a member of the Board of Directors. Alex Ivančo, a department head at the Ministry of Finance of the Czech Republic, was appointed as a new member of the Board of Directors for a 5-year term. Karel Bauer was concurrently reappointed Vice-Chairman of the Board of Directors for another five-year term.

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 the AFCPR.

## Membership of the Management Board in 2019 was as follows:

<b>Name</b>	<b>Position</b>
Renáta Kadlecová	Chairperson
Tomáš Hejduk	Member
Roman Kahánek	Member

The mission of the Financial Market Guarantee System is the operation of a deposit insurance scheme in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq. of Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq. of the AFCPR). 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 2019

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

With effect from 1 January 2016, based on 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 into 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 into 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 System 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 FINANCIAL MARKET GUARANTEE SYSTEM

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### Financial Statements

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Year ended 31 December 2019

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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 under the Deposit Guarantee 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.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

## 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 (the “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

The 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.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

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. The 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 accounts in a correct, complete, probative, comprehensible and 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.

### 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 FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

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.

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

The accounting unit performs an inventory before the preparation of the financial statements.

The financial statements are an inseparable whole and comprise:

- balance sheet,
- profit and loss account,
- annex.

The Financial Market Guarantee System prepares an annual report.

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

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

## 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 Board of Directors of the Financial Market Guarantee System or by the Management Board on the basis of an authorization granted by the Board of Directors.

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

## 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. Accounting cases directly assignable 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 where 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 In the event 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 statements of work. Staff at the Financial Market Guarantee System prepare statements of work 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.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

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### Financial Statements

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Year ended 31 December 2019

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**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 establishes the budget of all accounting units prior to the start of the current year, and at the same time determines 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.

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 units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for securities held for trading, which are recognised at fair value, and securities held to maturity, which are valued at amortised costs. 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.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

#### 2.11 Tangible Fixed Assets

Purchased tangible fixed 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 tangible fixed 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. Works of art are not subject to depreciation.

Repair and maintenance expenses on tangible fixed 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.

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 'Interest revenue'.

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.

##### **Available-for-Sale Securities**

Available-for-sale securities are securities that are not intended for trading in the short term. These securities are classified as long-term investments.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

When purchased, available-for-sale securities are recognised at acquisition cost, including transaction expenses, and subsequently measured at fair value at the balance sheet date.

Interest income from available-for-sale securities is recognized as 'Interest revenue'.

Changes in the fair value of available-for-sale securities are recognized in the balance sheet as 'Valuation differences from revaluation of assets and liabilities'.

#### **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 and is recognised as 'Interest revenue'.

#### **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 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'.

### 2.14 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 contributions 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, while they are due within the deadline set by the Czech National Bank.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

#### 2.15 Adjustments and Provisions

The Financial Market Guarantee System neither creates nor accounts for adjustments in accordance with Section 37 (1) of the Decree. The Financial Market Guarantee System neither creates nor accounts for provisions in accordance with Section 40 (1) of the Decree.

#### 2.16 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.

#### 2.17 Equity

Based on a 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.

#### 2.18 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.

#### 2.19 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 facts that existed as of the balance sheet date.

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

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

3 **D** Additional Information on the Balance Sheet and Profit and Loss Account3.1 **D** Other Receivables

(CZK '000)	As of 31 December 2019	As of 1 January 2019
Receivables from compensation disbursed	25,844,562	27,618,485
Receivables from duplicate payments	14,379	14,412
Other receivables	234	234
Receivables from unpaid contributions	3,044	3,044
<b>Other receivables – total</b>	<b>25,862,219</b>	<b>27,636,175</b>

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 25,844,562,000 as of 31 December 2019 (as of 1 January 2019: CZK 27,618,485,000).

No adjustments were created for these receivables based on a measure of the Ministry of Finance of the Czech Republic (see note 2.15). If there were an option to create an adjustment, the Financial Market Guarantee System would create a 91% adjustment for the Receivables from compensation for deposits disbursed.

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

(CZK '000)	As of 31 December 2019	As of 1 January 2019
Debt securities held to maturity	3,108,484	3,211,069

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2019 (the same as of 1 January 2019). The value of the bonds in market terms reached CZK 3,262,375,000 as of 31 December 2019 (as of 1 January 2019 the value was CZK 3,364,195,000). As of 31 December 2019, the accrued value of securities held to maturity with a maturity of over 1 year stood at CZK 2,977,675 (2018: CZK 2,307,388), and is shown under assets in Part A.III. Debt securities held to maturity. As of 31 December 2019, the accrued value of securities held to maturity with a maturity of under 1 year stood at CZK 130,809 (2018: CZK 903,681), and is shown under assets in Part B.III. Other securities.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

3.3 **Miscellaneous Long-Term Financial Assets****Market value of securities held within the available-for-sale securities portfolio:**

(CZK '000)	As of 31 December 2019	As of 1 January 2019
Debt securities	99,680	0

As of 31 December 2019, the market value of debt securities held by the Financial Market Guarantee System within the available-for-sale securities portfolio was CZK 99,680,000 (2018: 0). As of 31 December 2019, the nominal value of bonds stood at CZK 100,000,000 (2018: 0).

Czech government bonds accounted for 100% of the value of these securities as of 31 December 2019.

3.4 **Statement of Changes on the Funds Account**

The Financial Market Guarantee System has no registered capital. Its equity consists of the Funds account, valuation differences from revaluation of assets and liabilities and the financial result (i.e. profit/loss).

**Statement of Changes on the Funds Account:**

(CZK '000)	2019	2018
<b>Deposit Insurance Fund:</b>		
Opening balance – 1 January	55,446,300	54,443,524
Contributions received (see note 3.6.)	1,075,668	1,003,031
New receivables due from banks in insolvency and liquidation	0	-6
Written-off receivables and payables from compensation disbursements	-1,048,253	0
Compensation disbursement	0	-249
Additional payments and refunds from settlement, other receivables due from banks	0	0
<b>Closing balance – 31 December</b>	<b>55,473,715</b>	<b>55,446,300</b>

During 2019, the Financial Market Guarantee System completed the disbursement of compensation for deposits to clients of ERB bank, a. s., which had started in 2016. During the three-year statutory period, the Financial Market Guarantee System disbursed compensation to a total of 3,445 clients in a total volume of CZK 3,508,487,555.87.



## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

(CZK '000)	2019	2018
<b>Crisis Resolution Fund:</b>		
Opening balance - 1 January	9,096,014	5,983,802
of which:		
<b>Contribution Fund</b>		
Opening balance - 1 January	9,095,278	5,983,802
Contributions received (see note 3.6)	3,446,584	3,111,476
Closing balance - 31 December	12,541,862	9,095,278
<b>Operational Fund</b>		
Opening balance - 1 January	736	0
Operating revenue	76,230	6,493
Management costs	-3,453	-5,757
Closing balance - 31 December	73,513	736
<b>Closing balance - 31 December</b>	<b>12,615,375</b>	<b>9,096,014</b>

## 3.5 Liabilities

Payables from compensation disbursements as of 31 December 2019 were CZK 0 (1 January 2019: CZK 18,962,000). 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 2019 were CZK 775,000 (1 January 2019: CZK 722,000), of which CZK 434,000 (1 January 2019: CZK 390,000) is social security payables and CZK 341,000 (1 January 2019: CZK 332,000) is health insurance payables.

Tax liabilities amounted to CZK 503,000 (1 January 2019: CZK 497,000).

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 2.14.).

(CZK '000)	2019	2018
Contributions received from banks	4,522,252	4,114,507

By 31 May 2019, contributions to the Crisis Resolution Fund totalled CZK 3,446,584,000 and by 30 June 2019, contributions to the Deposit Insurance Fund totalled CZK 1,075,668,000. By 31 May 2018, contributions to the Crisis Resolution Fund totalled CZK 3,111,476,000 and by 30 June 2018, contributions to the Deposit Insurance Fund totalled CZK 1,003,031,000.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

## 3.7 Summary of Revenues and Expenses of the Current Accounting Period

(CZK '000)	2019	2018
<b>Revenues:</b>		
Revenues from securities sold	0	0
Contractual penalties, late payment interest, other fines and penalties	40	9
Interest revenue	839,415	429,868
Foreign exchange gains	0	0
Other revenues (see note 3.8.)	590	294
<b>Total</b>	<b>840,045</b>	<b>430,171</b>
<b>Expenses:</b>		
Securities sold	0	0
Amortisation of intangible and depreciation of tangible fixed assets	-638	-769
Purchases consumed	-344	-494
Services	-13,324	-12,301
Personnel costs	-18,464	-16,966
Taxes and fees	-88	-314
Contractual penalties and late payment interest, Other fines and penalties	0	-477
Foreign exchange losses	-22	-50
Other expenses (see note 3.8.)	-4,024	-3,324
<b>Total</b>	<b>-36,904</b>	<b>-34,695</b>

The 2019 profit of CZK 803,141,000 is made up by the profit of the Deposit Insurance Fund totalling CZK 596,649,000 and by the profit of the Crisis Resolution Fund amounting to CZK 206,492,000. The profit of the Deposit Insurance Fund is proposed for transfer to retained earnings of prior years, and the profit of the Crisis Resolution Fund is proposed for transfer to the Operational Fund.

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2019 amounted to CZK 13,355,000 (2018: CZK 12,461,000).

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2019

## 3.8 Other Revenues and Other Expenses

(CZK '000)	2019	2018
<b>Revenues:</b>		
Sundry other revenues - change in the fair value of securities held for trading	0	0
Other	590	294
<b>Total</b>	<b>590</b>	<b>294</b>
<b>Expenses:</b>		
Sundry other expenses - change in the fair value of securities held for trading	0	0
Other	-4,024	-3,324
<b>Total</b>	<b>-4,024</b>	<b>-3,324</b>

The item 'Other expenses' primarily includes bank fees, fees associated with the management of financial reserves, insurance premiums including statutory employee insurance, and membership fees to international organizations.

In 2019, the auditor PricewaterhouseCoopers Audit, s.r.o., was reimbursed for the statutory audit of the financial statements for 2018. The auditor's fee was CZK 472,000 (2018: CZK 472,000).

In 2019, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 93,000 (2018: CZK 93,000) 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.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2019 totalled CZK 34,219,000 (2018: CZK 31,567,000), of which CZK 31,685,000 (2018: CZK 28,865,000) was expenses related to the management of the Deposit Insurance Fund and CZK 2,534,000 (2018: CZK 2,702,000) was expenses related to the management of the Crisis Resolution Fund.

The expenses related to the management of the Deposit Insurance Fund of CZK 31,685,000 (2018: CZK 28,865,000) were covered from the resources of the Deposit Insurance Fund. The expenditure related to the management of the Crisis Resolution Fund of CZK 2,534,000 was covered from the Operational Fund of the Crisis Resolution Fund.

In 2018, with regard to the lack of resources in the Operational Fund of the Crisis Resolution Fund, the expenditure related to the management of the Crisis Resolution Fund, which is comprised of operating expenses, expenses related to securities management,

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

expenses for asset acquisitions and the share of the Crisis Resolution Fund in asset depreciation, in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of the Financial Market Guarantee System, was partly paid from the resources of the Deposit Insurance Fund, which were provided as an advance payment to the Operational Fund of the Crisis Resolution Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund from the Crisis Resolution Fund. After approval of the 2018 financial statements, the 2018 profit of the Crisis Resolution Fund was transferred to the Operational Fund of the Crisis Resolution Fund and these resources were used to repay to the Deposit Insurance Fund the advance payment provided to the Operational Fund of the Crisis Resolution Fund to cover the expenses related to the management of the Crisis Resolution Fund in 2018.

### 3.10 Litigation

As of 31 December 2019, the Financial Market Guarantee System was not involved as a defendant in any litigation where the subject matter of the dispute was for a principal amount in excess of CZK 5 million.

The plaintiff ASSETWISE Limited was ordered by courts at various levels of proceedings to pay the following amounts to the Financial Market Guarantee System, being the defendant: CZK 3,691,471.09 as the costs of proceedings before the court of first instance, CZK 1,473,728.51 as the costs of proceedings before the court of appeal and CZK 734,954 as the costs of proceedings before the court of final appeal. Thus, the costs of proceedings awarded by courts of all levels total CZK 5,900,153.60.

In connection with the recovery of costs of proceedings against this company, the legal counsel of the Financial Market Guarantee System contacted a Cypriot law firm, which stated in its memorandum of 20 June 2019 that (a) no real estate of the debtor had been identified in the Republic of Cyprus and (b) the debtor had no bank accounts in the Republic of Cyprus. The summary of findings further states that the debtor has never registered for social insurance, has not reported any accounts to the tax authority during the last two years and has never registered for value added tax. Considering the foregoing, the Financial Market Guarantee System does not account for this claim. The final decision on further course of action in respect of this claim will be made before expiration of the period for enforceability of the court decision in the Republic of Cyprus, i.e. before 13 January 2024 or before 21 December 2024, in the case of a decision of the court of final appeal.

### 3.11 Commentary on the Pandemic Situation in Early 2020

Compared to the calm year of 2019, early 2020 brought unexpected events associated with the COVID-19 pandemic and unprecedented measures to prevent it, which have already started to impact the economy and will continue to do so. It is not easy to make any accurate economic predictions as regards the future developments in 2020. The outlook is largely dependent on the duration and intensity of the current crisis. The same applies to the development of the situation in the banking sector in the Czech Republic. As of now, we can only say that the banking sector, thanks to the economic growth over recent years, is quite well capitalized and has sufficient liquidity. Banks and financial institutions are under permanent and tight supervision by the regulatory authorities to ensure they are well prepared for such crisis situations. The measures adopted by the Czech government and the regulatory authorities should minimize the risks of bankruptcy of financial institutions. Therefore, a more serious risk scenario for the development of the banking sector in the Czech Republic is very unlikely. Thanks to, among other things, detailed stress tests performed in 2019, the Financial Market Guarantee System is also prepared for a potential crisis scenario, should it materialize.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2019

### 3.12 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 2019. The events described in note 3.11 had no impact on the financial statements of the Financial Market Guarantee System as of 31 December 2019.

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

Prague, 18 June 2020



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager

# IX THE DEPOSIT INSURANCE FUND

## INDEPENDENT AUDITOR'S REPORT



## Independent auditor's report

to the Board of Directors of Garanční systém finančního trhu

### Opinion

We have audited the accompanying financial statements of the fund Fond pojištění vkladů, with its registered office at Týn 639/1, Staré Město, Praha 1 ("the Fund"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2019, the income statement for the year ended 31 December 2019 and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019 and of its financial performance for the year ended 31 December 2019 in accordance with Czech accounting legislation.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards 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 (Fund manager) in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. 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 and the Board of Directors of Garanční systém finančního trhu for the Financial Statements of the Fund

The Statutory Body of Garanční systém finančního trhu is responsible for the preparation and fair presentation of the financial statements of the Fund in accordance with Czech accounting legislation and for such internal control as the Statutory Body of 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 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 either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors of Garanční systém finančního trhu is responsible for overseeing the Fund's financial reporting process.

### 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

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### Independent auditor's report

an audit conducted in accordance with the above-stated requirements 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-stated requirements, we exercise professional judgment and maintain professional scepticism 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 controls.
- Obtain an understanding of internal controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body of 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 notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body and the Board of Directors of 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.

18 June 2020

*PricewaterhouseCoopers Audit, s.r.o.*  
represented by Director

*Eva Loulová*  
Eva Loulová  
Statutory Auditor, Licence No. 1981

This report is addressed to the Board of Directors of Garanční systém finančního trhu

#### Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.



# FINANCIAL STATEMENTS

## The Deposit Insurance Fund

Date of financial statements:	31 December 2019
Date of preparation of financial statements:	18 June 2020

### Balance Sheet as of 31 December 2019 (CZK '000)

ASSETS	As of 1 January 2019	As of 31 December 2019
<b>A. Total fixed assets</b>	<b>2,308,760</b>	<b>3,079,215</b>
<b>I Intangible fixed assets – software</b>	<b>2,257</b>	<b>2,728</b>
<b>II Tangible fixed assets</b>	<b>1,340</b>	<b>1,990</b>
Works of art, objects and collections	233	289
Tangible assets and their sets	1,107	1,701
<b>III Long-term investments – bonds, debentures and similar securities held to maturity</b>	<b>2,307,388</b>	<b>3,077,355</b>
Debt securities held to maturity	2,307,388	2,977,675
Miscellaneous long-term financial assets	0	99,680
<b>IV Total accumulated depreciation and amortisation of fixed assets</b>	<b>-2,225</b>	<b>-2,858</b>
Accumulated amortisation of software	-1,491	-1,924
Accumulated depreciation of machinery and equipment	-734	-934
<b>B. Total current assets</b>	<b>57,015,670</b>	<b>56,850,911</b>
<b>II Total receivables</b>	<b>27,638,900</b>	<b>25,862,221</b>
Operating advances paid	18	2
Other receivables	27,638,881	25,862,219
<b>III Total current financial assets</b>	<b>29,376,529</b>	<b>30,988,312</b>
Cash in hand	28	29
Stamps and vouchers	17	231
Financial resources on accounts	28,472,803	30,857,243
Other securities	903,681	130,809
<b>IV Total other assets</b>	<b>242</b>	<b>378</b>
Prepaid expenses	242	378
<b>Total assets</b>	<b>59,324,430</b>	<b>59,930,126</b>

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2019

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2019</b>	<b>As of 31 December 2019</b>
<b>A. Total equity</b>	<b>59,301,093</b>	<b>59,924,698</b>
<b>I Equity – funds</b>	<b>55,446,300</b>	<b>55,473,256</b>
Funds	55,446,300	55,473,715
Revaluation of assets and liabilities	0	–459
<b>II Total profit/loss</b>	<b>3,854,793</b>	<b>4,451,442</b>
Profit/loss account	322,699	596,649
Retained earnings	3,532,094	3,854,793
<b>B. Total liabilities</b>	<b>23,337</b>	<b>5,428</b>
<b>III Total current payables</b>	<b>23,337</b>	<b>5,428</b>
Payables to suppliers	915	76
Employees	1,745	1,794
Other payables to employees	5	5
Payables to social security and public health insurance institutions	722	775
Other direct tax liabilities	497	503
Other payables	18,977	811
Estimated payables	476	1,464
<b>Total equity and liabilities</b>	<b>59,324,430</b>	<b>59,930,126</b>

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2019

Profit and Loss Account for the year ended 31 December 2019  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I Consumed purchases and purchased services</b>	<b>12,777</b>	<b>0</b>	<b>12,777</b>
1. Consumption of material	316	0	316
3. Repairs and maintenance	23	0	23
4. Travel expenses	869	0	869
5. Representation expenses	136	0	136
6. Other services	11,433	0	11,433
<b>III Personnel costs</b>	<b>16,946</b>	<b>0</b>	<b>16,946</b>
10. Wages and salaries	12,257	0	12,257
11. Statutory social security insurance	3,871	0	3,871
13. Statutory social expenses	602	0	602
14. Other social expenses	216	0	216
<b>IV Taxes and fees</b>	<b>88</b>	<b>0</b>	<b>88</b>
<b>V Other expenses</b>	<b>3,020</b>	<b>0</b>	<b>3,020</b>
19. Foreign exchange losses	20	0	20
22. Sundry other expenses	3,000	0	3,000
<b>VI Depreciation, assets sold, creation and use of provisions and adjustments</b>	<b>634</b>	<b>0</b>	<b>634</b>
23. Amortisation of intangible and depreciation of tangible fixed assets	634	0	634
<b>Total expenses</b>	<b>33,465</b>	<b>0</b>	<b>33,465</b>

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2019

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV Other revenues</b>	<b>630,114</b>	<b>0</b>	<b>630,114</b>
5. Contractual penalties, late payment interest, other fines and penalties	40	0	40
7. Interest revenue	629,484	0	629,484
10. Sundry other revenues	590	0	590
<b>Total revenues</b>	<b>630,114</b>	<b>0</b>	<b>630,114</b>
<b>C. Profit/loss before tax</b>	<b>596,649</b>	<b>0</b>	<b>596,649</b>
<b>D. Profit/loss after tax</b>	<b>596,649</b>	<b>0</b>	<b>596,649</b>

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Financial Market 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 Financial Market 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 2019

## 1 General Information

The Deposit Insurance Fund is an accounting unit managed by the Financial Market Guarantee System, a legal person governed by public law, which was established under its original name the Deposit Insurance Fund by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. 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.

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 the AFCPR.

The mission of the Financial Market Guarantee System is the operation of a deposit insurance scheme in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq. of Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq. of the AFCPR). 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 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 into 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 into 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

## The Deposit Insurance Fund

### Financial Statements

Year ended 31 December 2019

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 System 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 under the Deposit Guarantee 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.

## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2019

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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 and 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.

## The Deposit Insurance Fund

### Financial Statements

Year ended 31 December 2019

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. The 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 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.

The bookkeeping is kept in such a way that the financial statements prepared on its 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.



## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2019

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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

An inventory is performed before the preparation of the financial statements.

The financial statements are an inseparable whole and comprise:

- balance sheet,
- profit and loss account,
- annex.

## 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 Filing 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 Board of Directors of the Financial Market Guarantee System or by the Management Board on the basis of an authorization granted by the Board of Directors.

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

## The Deposit Insurance Fund

### Financial Statements

Year ended 31 December 2019

## 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. Accounting cases directly assignable 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 where 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 In the event 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 statements of work. Staff at the Financial Market Guarantee System prepare statements of work 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.

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 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 Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2019

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The Financial Market Guarantee System establishes the budget of all accounting units prior to the start of the current year, and at the same time determines 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 units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for securities held for trading, which are recognised at fair value, and securities held to maturity, which are valued at amortised costs. 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 tangible fixed 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 tangible fixed 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. Works of art are not subject to depreciation.

Repair and maintenance expenses on tangible fixed 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.

The Deposit Insurance Fund

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Financial Statements

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Year ended 31 December 2019

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## 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 'Interest revenue'.

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.

### **Available-for-Sale Securities**

Available-for-sale securities are securities that are not intended for trading in the short term. These securities are classified as long-term investments.

When purchased, available-for-sale securities are recognised at acquisition cost, including transaction expenses, and subsequently measured at fair value at the balance sheet date.

Interest income from available-for-sale securities is recognized as 'Interest revenue'.

Changes in the fair value of available-for-sale securities are recognized in the balance sheet as 'Valuation differences from revaluation of assets and liabilities'.

### **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 and is recognised as 'Interest revenue'.

The Deposit Insurance Fund

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Financial Statements

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Year ended 31 December 2019

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

### 2.14 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.

### 2.15 Adjustments and Provisions

The Deposit Insurance Fund neither creates nor accounts for adjustments in accordance with Section 37 (1) of the Decree. The Deposit Insurance Fund neither creates nor accounts for provisions in accordance with Section 40 (1) of the Decree.

### 2.16 Payables to Bank Clients and Receivables Due from Banks that Could Not Meet their Commitments to Clients

In accordance with the Decree and an internal accounting regulation governing accepted contributions, compensation disbursements and related cases, upon commencement of disbursement, a payable to clients of the banks for which the compensation is being disbursed is posted against a reduction in the above-mentioned Funds account 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.

## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2019

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#### 2.17 Equity

Based on a 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 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.

#### 2.18 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 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.

#### 2.19 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 facts that existed as of the balance sheet date.

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

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2019

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

(CZK '000)	As of 31 December 2019	As of 1 January 2019
Receivables from compensation disbursed	25,844,562	27,618,485
Receivables from duplicate payments	14,379	14,412
Other receivables	234	2,940
Receivables from unpaid contributions	3,044	3,044
<b>Other receivables – total</b>	<b>25,862,219</b>	<b>27,638,881</b>

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 25,844,562,000 as of 31 December 2019 (as of 1 January 2019: CZK 27,618,485,000).

No adjustments were created for these receivables based on a measure of the Ministry of Finance of the Czech Republic (see note 2.15). If there were an option to create an adjustment, the Financial Market Guarantee System would create a 91% adjustment for the Receivables from compensation for deposits disbursed.

In 2018, Other receivables include a receivable of the Deposit Insurance Fund from the Crisis Resolution Fund to cover the costs related to the management of the Crisis Resolution Fund of CZK 2,706,000. In 2019, this receivable was repaid.

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

(CZK '000)	As of 31 December 2019	As of 1 January 2019
Debt securities held to maturity	3,108,484	3,211,069

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2019 (the same as of 1 January 2019). The value of the bonds in market terms reached CZK 3,262,375,000 as of 31 December 2019 (as of 1 January 2019 the value was CZK 3,364,195,000). As of 31 December 2019, the accrued value of securities held to maturity with a maturity of over 1 year stood at CZK 2,977,675 (2018: CZK 2,307,388), and is shown under assets in Part A.III. Debt securities held to maturity. As of 31 December 2019, the accrued value of securities held to maturity with a maturity of under 1 year stood at CZK 130,809 (2018: CZK 903,681), and is shown under assets in Part B.III. Other securities.

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2019

## 3.3 Miscellaneous Long-Term Financial Assets

**Market value of securities held within the available-for-sale securities portfolio:**

(CZK '000)	As of 31 December 2019	As of 1 January 2019
Debt securities	99,680	0

As of 31 December 2019, the market value of debt securities held by the Financial Market Guarantee System within the available-for-sale securities portfolio was CZK 99,680,000 (2018: 0). As of 31 December 2019, the nominal value of bonds stood at CZK 100,000,000 (2018: 0).

Czech government bonds accounted for 100% of the value of these securities as of 31 December 2019.

## 3.4 Statement of Changes on the Funds Account

The Deposit Insurance Fund has no registered capital. Its equity consists of the Funds account, valuation differences from revaluation of assets and liabilities and the financial result (i.e. profit/loss).

**Statement of Changes on the Funds Account:**

(CZK '000)	2019	2018
Opening balance – 1 January	55,446,300	54,443,524
Contributions received (see note 3.6.)	1,075,668	1,003,031
New receivables due from banks in insolvency and liquidation	0	-6
Written-off receivables and payables from compensation disbursements	-1,048,253	0
Compensation disbursement	0	-249
Additional payments and refunds from settlement, other receivables due from banks	0	0
<b>Closing balance – 31 December</b>	<b>55,473,715</b>	<b>55,446,300</b>

During 2019, the Financial Market Guarantee System completed the disbursement of compensation for deposits to clients of ERB bank, a. s., which had started in 2016. During the three-year statutory period, the Financial Market Guarantee System disbursed compensation to a total of 3,445 clients in a total volume of CZK 3,508,487,555.87.

## 3.5 Liabilities

Payables from compensation disbursements as of 31 December 2019 were CZK 0 (1 January 2019: CZK 18,962,000). 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 2019 were CZK 775,000 (1 January 2019: CZK 722,000), of which CZK 434,000 (1 January 2019: CZK 390,000) is social security payables and CZK 341,000 (1 January 2019: CZK 332,000) is health insurance payables.



## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2019

Tax liabilities amounted to CZK 503,000 (1 January 2019: CZK 497,000).

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)

	2019	2018
Contributions received from banks	1,075,668	1,003,031

By 30 June 2019, contributions made to the Deposit Insurance Fund for 2019 had totalled CZK 1,075,668,000. By 30 June 2018, contributions made to the Deposit Insurance Fund for 2018 had totalled CZK 1,003,031,000.

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

(CZK '000)	2019	2018
<b>Revenues:</b>		
Contractual penalties, late payment interest, other fines and penalties	40	9
Interest revenue	629,484	353,653
Other revenues (see note 3.8.)	590	279
<b>Total</b>	<b>630,114</b>	<b>353,941</b>
<b>Expenses:</b>		
Amortisation of intangible and depreciation of tangible fixed assets	-634	-769
Purchases consumed	-316	-446
Services	-12,461	-11,390
Personnel costs	-16,946	-15,296
Taxes and fees	-88	-314
Contractual penalties and late payment interest, Other fines and penalties	0	-477
Foreign exchange losses	-20	-45
Other expenses (see note 3.8.)	-3,000	-2,505
<b>Total</b>	<b>-33,465</b>	<b>-31,242</b>

The 2019 profit of CZK 596,649,000 (2018: CZK 322,699,000) 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 2019 amounted to CZK 13,355,000 (2018: CZK 12,461,000). The share of wage costs covered by the Deposit Insurance Fund amounts to CZK 12,257,000 (2018: CZK 11,234,000).

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2019

## 3.8 Other Revenues and Other Expenses

(CZK '000)	2019	2018
<b>Revenues:</b>		
Other	590	279
<b>Total</b>	<b>590</b>	<b>279</b>
<b>Expenses:</b>		
Other	-3,000	-2,505
<b>Total</b>	<b>-3,000</b>	<b>-2,505</b>

The item 'Other expenses' primarily includes bank fees, fees associated with the management of financial reserves, insurance premiums including statutory employee insurance, and membership fees to international organizations.

In 2019, the auditor PricewaterhouseCoopers Audit, s.r.o., was reimbursed for the statutory audit of the financial statements for 2018. The auditor's fee was CZK 472,000 (2018: CZK 472,000). The Deposit Insurance Fund's share of these costs is CZK 433,000 (2018: CZK 426,000).

In 2019, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 93,000 (2018: CZK 93,000) 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 85,000 (2018: CZK 84,000).

## 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.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2019 totalled CZK 34,219,000 (2018: CZK 31,567,000), of which CZK 31,685,000 (2018: CZK 28,865,000) was expenses related to the management of the Deposit Insurance Fund and CZK 2,534,000 (2018: CZK 2,702,000) was expenses related to the management of the Crisis Resolution Fund.

The expenses related to the management of the Deposit Insurance Fund of CZK 31,685,000 (2018: CZK 28,865,000) were reimbursed to the Financial Market Guarantee System from resources of the Deposit Insurance Fund.

In 2018, with regard to the lack of resources in the Operational Fund of the Crisis Resolution Fund, the expenditure related to the management of the Crisis Resolution Fund, which is comprised of operating expenses, expenses related to securities management, expenses for asset acquisitions and the share of the Crisis Resolution Fund in asset depreciation, in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of the Financial Market Guarantee System, was partly paid from the resources of the

## The Deposit Insurance Fund

### Financial Statements

Year ended 31 December 2019

Deposit Insurance Fund, which were provided as an advance payment to the Operational Fund of the Crisis Resolution Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund from the Crisis Resolution Fund. After approval of the 2018 financial statements, the 2018 profit of the Crisis Resolution Fund was transferred to the Operational Fund of the Crisis Resolution Fund and these resources were used to repay to the Deposit Insurance Fund the advance payment provided to the Operational Fund of the Crisis Resolution Fund to cover the expenses related to the management of the Crisis Resolution Fund in 2018. In 2019, the expenses related to the management of the Crisis Resolution Fund were covered from the Operational Fund of the Crisis Resolution Fund. The funds provided from the Operational Fund of the Crisis Resolution Fund to cover operating expenses exceeded the actual expenses by CZK 802,000 and the receivable thus created will be settled upon approval of the financial statements.

### 3.10 Litigation

As of 31 December 2019, in connection with the management of the Deposit Insurance Fund, the Financial Market Guarantee System was not involved as a defendant in any litigation where the subject matter of the dispute was for a principal amount in excess of CZK 5 million.

The plaintiff ASSETWISE Limited was ordered by courts at various levels of proceedings to pay the following amounts to the Financial Market Guarantee System, being the defendant: CZK 3,691,471.09 as the costs of proceedings before the court of first instance, CZK 1,473,728.51 as the costs of proceedings before the court of appeal and CZK 734,954 as the costs of proceedings before the court of final appeal. Thus, the costs of proceedings awarded by courts of all levels total CZK 5,900,153.60.

In connection with the recovery of costs of proceedings against this company, the legal counsel of the Financial Market Guarantee System contacted a Cypriot law firm, which stated in its memorandum of 20 June 2019 that (a) no real estate of the debtor had been identified in the Republic of Cyprus and (b) the debtor had no bank accounts in the Republic of Cyprus. The summary of findings further states that the debtor has never registered for social insurance, has not reported any accounts to the tax authority during the last two years and has never registered for value added tax. Considering the foregoing, the Financial Market Guarantee System does not account for this claim. The final decision on further course of action in respect of this claim will be made before expiration of the period for enforceability of the court decision in the Republic of Cyprus, i.e. before 13 January 2024 or before 21 December 2024, in the case of a decision of the court of final appeal.

### 3.11 Commentary on the Pandemic Situation in Early 2020

Compared to the calm year of 2019, early 2020 brought unexpected events associated with the COVID-19 pandemic and unprecedented measures to prevent it, which have already started to impact the economy and will continue to do so. It is not easy to make any accurate economic predictions as regards the future developments in 2020. The outlook is largely dependent on the duration and intensity of the current crisis. The same applies to the development of the situation in the banking sector in the Czech Republic. As of now, we can only say that the banking sector, thanks to the economic growth over recent years, is quite well capitalized and has sufficient liquidity. Banks and financial institutions are under permanent and close supervision by the regulatory authorities to ensure they are well prepared for such crisis situations. The measures adopted by the Czech government and the regulatory authorities should minimize the risks of bankruptcy of financial institutions. Therefore, a more serious risk scenario for the development of the banking sector in the Czech Republic is very unlikely. Thanks to, among other things, detailed stress tests performed in 2019, the Financial Market Guarantee System is also prepared for a potential crisis scenario, should it materialize.

The Deposit Insurance Fund

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Financial Statements

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Year ended 31 December 2019

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### 3.12 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 2019. The events described in note 3.11 had no impact on the financial statements of the Financial Market Guarantee System as of 31 December 2019.

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

Prague, 18 June 2020



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager

# X CRISIS RESOLUTION FUND

## INDEPENDENT AUDITOR'S REPORT



## Independent auditor's report

to the Board of Directors of Garanční systém finančního trhu

### Opinion

We have audited the accompanying financial statements of the fund Fond pro řešení krize, with its registered office at Týn 639/1, Staré Město, Praha 1 ("the Fund"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2019, the income statement for the year ended 31 December 2019 and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019 and of its financial performance for the year ended 31 December 2019 in accordance with Czech accounting legislation.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards 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 (Fund manager) in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. 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 and the Board of Directors of Garanční systém finančního trhu for the Financial Statements of the Fund

The Statutory Body of Garanční systém finančního trhu is responsible for the preparation and fair presentation of the financial statements of the Fund in accordance with Czech accounting legislation and for such internal control as the Statutory Body of 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 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 either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors of Garanční systém finančního trhu is responsible for overseeing the Fund's financial reporting process.

### 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

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### Independent auditor's report

an audit conducted in accordance with the above-stated requirements 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-stated requirements, we exercise professional judgment and maintain professional scepticism 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 controls.
- Obtain an understanding of internal controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body of 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 notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body and the Board of Directors of 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.

18 June 2020

*PricewaterhouseCoopers Audit, s.r.o.*

represented by Director

*Eva Loulová*

Eva Loulová  
Statutory Auditor, Licence No. 1981

This report is addressed to the Board of Directors of Garanční systém finančního trhu

#### Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

# FINANCIAL STATEMENTS

The Crisis Resolution Fund

Date of financial statements:	31 December 2019
Date of preparation of financial statements:	18 June 2020

Balance Sheet as of 31 December 2019  
(CZK '000)

ASSETS	As of 1 January 2019	As of 31 December 2019
<b>A. Total fixed assets</b>	<b>25</b>	<b>80</b>
<b>II Tangible fixed assets</b>	<b>25</b>	<b>84</b>
Works of art, objects and collections	25	31
Tangible assets and their sets	0	53
<b>IV Total accumulated depreciation and amortisation of fixed assets</b>	<b>0</b>	<b>-4</b>
Accumulated depreciation of machinery and equipment and of vehicles, furniture and fixtures	0	-4
<b>B. Total current assets</b>	<b>9,171,472</b>	<b>12,821,787</b>
<b>II Total receivables</b>	<b>0</b>	<b>802</b>
Other receivables	0	802
<b>III Total current financial assets</b>	<b>9,171,472</b>	<b>12,820,985</b>
Financial resources on accounts	9,171,472	12,820,985
<b>Total assets</b>	<b>9,171,497</b>	<b>12,821,867</b>



The Crisis Resolution Fund

Financial Statements

Year ended 31 December 2019

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2019</b>	<b>As of 31 December 2019</b>
<b>A. Total equity</b>	<b>9,168,791</b>	<b>12,821,867</b>
<b>I Equity</b>	<b>9,096,014</b>	<b>12,615,375</b>
Funds	9,096,014	12,615,375
Contribution Fund	9,095,278	12,541,862
Operational Fund	736	73,513
<b>II Total profit/loss</b>	<b>72,777</b>	<b>206,492</b>
Profit/loss account	72,777	206,492
Retained earnings / Accumulated losses from prior years	0	0
<b>B. Total liabilities</b>	<b>2,706</b>	<b>0</b>
<b>III Total current payables</b>	<b>2,706</b>	<b>0</b>
Other payables	2,706	0
<b>Total equity and liabilities</b>	<b>9,171,497</b>	<b>12,821,867</b>

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2019

Profit and Loss Account for the year ended 31 December 2019  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I Consumed purchases and purchased services</b>	<b>891</b>	<b>0</b>	<b>891</b>
1. Consumption of material	28	0	28
3. Repairs and maintenance	2	0	2
4. Travel expenses	78	0	78
5. Representation expenses	12	0	12
6. Other services	771	0	771
<b>III Personnel costs</b>	<b>1,518</b>	<b>0</b>	<b>1,518</b>
10. Wages and salaries	1,098	0	1,098
11. Statutory social security insurance	347	0	347
13. Statutory social expenses	54	0	54
14. Other social expenses	19	0	19
<b>V Other expenses</b>	<b>1,026</b>	<b>0</b>	<b>1,026</b>
19. Foreign exchange losses	2	0	2
22. Sundry other expenses	1,024	0	1,024
<b>VI Depreciation, assets sold, creation and use of provisions and adjustments</b>	<b>4</b>	<b>0</b>	<b>4</b>
Depreciation and amortization of fixed assets	4	0	4
<b>Total expenses</b>	<b>3,439</b>	<b>0</b>	<b>3,439</b>

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2019

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV Other revenues</b>	<b>209,931</b>	<b>0</b>	<b>209,931</b>
7. Interest revenue	209,931	0	209,931
<b>Total revenues</b>	<b>209,931</b>	<b>0</b>	<b>209,931</b>
<b>C. Profit/loss before tax</b>	<b>206,492</b>	<b>0</b>	<b>206,492</b>
<b>D. Profit/loss after tax</b>	<b>206,492</b>	<b>0</b>	<b>206,492</b>

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Financial Market 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 Financial Market 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 2019

## 1 General Information

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

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 the AFCPR.

The mission of the Financial Market Guarantee System is the operation of a deposit insurance scheme in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq. of Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq. of the AFCPR). 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 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 into 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 into 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

## The Crisis Resolution Fund

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### Financial Statements

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Year ended 31 December 2019

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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 System 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

### Financial Statements

Year ended 31 December 2019

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

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. The accounting units must record every

## The Crisis Resolution Fund

### Financial Statements

Year ended 31 December 2019

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 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.

The bookkeeping is kept in such a way that the financial statements prepared on its 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 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.

## The Crisis Resolution Fund

### Financial Statements

Year ended 31 December 2019

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

An inventory is performed before the preparation of the financial statements.

The financial statements are an inseparable whole and comprise:

- balance sheet,
- profit and loss account,
- annex.

## 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 Filing 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 Board of Directors of the Financial Market Guarantee System or by the Management Board on the basis of an authorization granted by the Board of Directors.

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



## The Crisis Resolution Fund

### Financial Statements

Year ended 31 December 2019

## 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. Accounting cases directly assignable 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 where 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 In the event 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 statements of work. Staff at the Financial Market Guarantee System prepare statements of work 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.

**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 Crisis Resolution Fund

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### Financial Statements

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Year ended 31 December 2019

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The Financial Market Guarantee System establishes 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 units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for securities held for trading, which are recognised at fair value, and securities held to maturity, which are valued at amortised costs. 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 tangible fixed 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 tangible fixed 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. Works of art are not subject to depreciation.

Repair and maintenance expenses on tangible fixed 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 intangible fixed 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.

The Crisis Resolution Fund

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Financial Statements

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Year ended 31 December 2019

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### **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 'Interest revenue'.

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 and is recognised as 'Interest revenue'.

### **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 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'.

## The Crisis Resolution Fund

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### Financial Statements

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Year ended 31 December 2019

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#### 2.14 Contributions Received from Banks

Contributions to the Crisis Resolution Fund are posted to the contributions 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, while they are due within the deadline set by the Czech National Bank.

#### 2.15 Adjustments and Provisions

The Crisis Resolution Fund neither creates nor accounts for adjustments in accordance with Section 37 (1) of the Decree. The Crisis Resolution Fund neither creates nor accounts for provisions in accordance with Section 40 (1) of the Decree.

#### 2.16 Equity

Based on a 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 / accumulated losses from prior years item to the Funds item is possible again if the Board of Directors so decides.

#### 2.17 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.

#### 2.18 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 facts that existed as of the balance sheet date.

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

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2019

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

(CZK '000)	As of 31 December 2019	As of 1 January 2019
Receivable for repayment of a part of the advance payment on expenses for the management of the Crisis Resolution Fund	802	0
<b>Other receivables – total</b>	<b>802</b>	<b>0</b>

The receivable for repayment of a part of the advance payment on expenses for the management of the Crisis Resolution Fund has resulted from the fact that the advance payment provided to cover expenses related to the management of the Crisis Resolution Fund was higher than the actual expenses.

**3.2** Short-Term Financial Assets

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

**3.3** Statement of Changes on the Funds Account

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)	2019	2018
<b>Crisis Resolution Fund:</b>		
<b>Opening balance – 1 January</b>	<b>9,096,014</b>	<b>5,983,802</b>
of which:		
<b>Contribution Fund</b>		
Opening balance – 1 January	9,095,278	5,983,802
Contributions received (see note 3.5)	3,446,584	3,111,476
Closing balance – 31 December	12,541,862	9,095,278
<b>Operational Fund</b>		
Opening balance – 1 January	736	0
Operating revenue	76,230	6,493
Management costs	–3,453	–5,757
Closing balance – 31 December	73,513	736
<b>Closing balance – 31 December</b>	<b>12,615,375</b>	<b>9,096,014</b>

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2019

**3.4** Liabilities

In 2018, the Crisis Resolution Fund had a liability of CZK 2,706,000 against the Deposit Insurance Fund for reimbursement of expenses related to the management of the Crisis Resolution Fund. In 2019, such a liability did not exist, because the amount owed to the Deposit Insurance Fund had been already paid.

**3.5** 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)	2019	2018
Contributions received from banks	3,446,584	3,111,476

By 31 May 2019, banks and selected investment firms had made contributions to the Crisis Resolution Fund, as prescribed by the Czech National Bank, totalling CZK 3,446,584,000 (2018: CZK 3,111,476,000).

**3.6** Summary of Revenues and Expenses of the Current and Previous Accounting Periods

(CZK '000)	2019	2018
<b>Revenues:</b>		
Interest revenue	209,931	76,215
Sundry other revenues	0	15
<b>Total</b>	<b>209,931</b>	<b>76,230</b>
<b>Expenses:</b>		
Purchases consumed	-28	-48
Services	-863	-911
Personnel costs	-1,518	-1,670
Foreign exchange losses	-2	-5
Depreciation	-4	0
Other expenses (see note 3.7)	-1,024	-819
<b>Total</b>	<b>-3,439</b>	<b>-3,453</b>

The 2019 financial result will be distributed as follows: the revenues of CZK 209,931,000 will be transferred to the Operational Fund of the Crisis Resolution Fund and the expenses of CZK 3,439,000 will be paid from the Operational Fund of the Crisis Resolution Fund after approval of the financial statements. The funds provided from the Operational Fund of the Crisis Resolution Fund to cover operating expenses exceeded the actual expenses by CZK 802,000 and the receivable thus created will be settled upon approval of the financial statements.

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2019

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2019 amounted to CZK 13,355,000 (2018: CZK 12,460,000). The share of wage costs covered by the Crisis Resolution Fund amounts to CZK 1,098,000 (2018: CZK 1,226,000).

## 3.7 Other Revenues and Other Expenses

(CZK '000)	2019	2018
<b>Revenues:</b>		
Other	0	15
<b>Total</b>	<b>0</b>	<b>15</b>
<b>Expenses:</b>		
Other	-1,024	-819
<b>Total</b>	<b>-1,024</b>	<b>-819</b>

The item 'Other expenses' primarily includes bank fees, fees associated with the management of financial reserves, insurance premiums including statutory employee insurance, and membership fees to international organizations.

In 2019, the auditor PricewaterhouseCoopers Audit, s.r.o., was reimbursed for the statutory audit of the financial statements for 2018. The auditor's fee was CZK 472,000 (2018: CZK 472,000). The Crisis Resolution Fund's share of these costs is CZK 39,000 (2018: CZK 46,000).

In 2019, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 93,000 (2018: CZK 93,000) 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 8,000 (2018: CZK 9,000).

## 3.8 Reimbursement of Costs Related to the Management of the Crisis Resolution Fund 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 2018, 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 2019 totalled CZK 34,219,000 (2018: CZK 31,567,000), of which CZK 31,685,000 (2018: CZK 28,865,000) was expenses related to the management of the Deposit Insurance Fund and CZK 2,534,000 (2018: CZK 2,702,000) was expenses related to the management of the Crisis Resolution Fund.

## The Crisis Resolution Fund

### Financial Statements

Year ended 31 December 2019

The expenditure related to the management of the Crisis Resolution Fund of CZK 2,534,000 was paid to the Financial Market Guarantee System from the Operational Fund of the Crisis Resolution Fund.

In 2018, with regard to the lack of resources in the Operational Fund of the Crisis Resolution Fund, the expenditure related to the management of the Crisis Resolution Fund, which is comprised of operating expenses, expenses related to securities management, expenses for asset acquisitions and the share of the Crisis Resolution Fund in asset depreciation, in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of the Financial Market Guarantee System, was partly paid from the resources of the Deposit Insurance Fund, which were provided as an advance payment to the Operational Fund of the Crisis Resolution Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund from the Crisis Resolution Fund. After approval of the 2018 financial statements, the 2018 profit of the Crisis Resolution Fund was transferred to the Operational Fund of the Crisis Resolution Fund and these resources were used to repay to the Deposit Insurance Fund the advance payment provided to the Operational Fund of the Crisis Resolution Fund to cover the expenses related to the management of the Crisis Resolution Fund in 2018. In 2019, the expenses related to the management of the Crisis Resolution Fund were covered from the Operational Fund of the Crisis Resolution Fund. The funds provided from the Operational Fund of the Crisis Resolution Fund to cover operating expenses exceeded the actual expenses by CZK 802,000 and the receivable thus created will be settled upon approval of the financial statements.

### 3.9 Commentary on the Pandemic Situation in Early 2020

Compared to the calm year of 2019, early 2020 brought unexpected events associated with the COVID-19 pandemic and unprecedented measures to prevent it, which have already started to impact the economy and will continue to do so. It is not easy to make any accurate economic predictions as regards the future developments in 2020. The outlook is largely dependent on the duration and intensity of the current crisis. The same applies to the development of the situation in the banking sector in the Czech Republic. As of now, we can only say that the banking sector, thanks to the economic growth over recent years, is quite well capitalized and has sufficient liquidity. Banks and financial institutions are under permanent and close supervision by the regulatory authorities to ensure they are well prepared for such crisis situations. The measures adopted by the Czech government and the regulatory authorities should minimize the risks of bankruptcy of financial institutions. Therefore, a more serious risk scenario for the development of the banking sector in the Czech Republic is very unlikely. Thanks to, among other things, detailed stress tests performed in 2019, the Financial Market Guarantee System is also prepared for a potential crisis scenario, should it materialize.



### 3.10 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 2019. The events described in note 3.9 had no impact on the financial statements of the Financial Market Guarantee System as of 31 December 2019.

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

Prague, 18 June 2020



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager