

# ANNUAL REPORT 2011



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# I. INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



Certainly we are experiencing a period of calm. The Czech banking community is stable and – we must add – it did not need to be stabilised. On the contrary, the stability and financial soundness of the domestic subsidiaries of foreign banks, in their own right, worked as a positive factor for the parent banks. We know why. A brief look at

the balance sheets and profit and loss statements of our banks gives a sufficient picture of the business model and strategy that kept the major (and also the not-so-major) Czech banks, if not in an explicit growth band, then at least in a profitable band, and one that is very safe in terms of capitalisation. It can therefore be said that, in this regard, the privatisation strategy (if there indeed was one) not only did not fail, but was of significant benefit in its systemic impact on the soundness of the banking sector. Our banks engage in their “core” activities, i.e., their retail and corporate clients, and do not have time (willingness, room...) to look for financial market instruments in any great way. That is, after all, confirmed by a large number of Czech National Bank statements and commentaries.

Thus have our banks avoided the direct impact of the crisis, although the rest of the economy of course has not, and hence we cannot avoid the aftermath. By that, I mean in part European and global regulatory interventions, and also in part other interventions that are being discussed or worked on. But it is not the goal of this introduction to talk about the scope, depth, or quality of new regulations in the financial

market sector, and in particular concerning banks. I would, therefore, like to use this space for a small essay that I would call ‘What to Do?’ What to do now, when we enjoy a period of relative peace on financial markets and stability in our banking sector?

There is much to do, from the point of the view of the Deposit Insurance Fund (hereinafter referred to as “the Fund”, registered in the commercial register as *Fond pojištění vkladů*). Firstly, the calm on the domestic market in itself affords an opportunity to view the matter tranquilly and to prepare systemically for potential future turbulence; and secondly, we know very well, and have made a part of our communication, that our system has particular weaknesses and that we know how we should go about addressing them. Or at least some of them.

First and foremost, let us secure, sufficiently in advance, the liquidity of the Fund’s resources, such that there is no question that the Fund can get cash within a week or eight days. For that, it is also important to inform other players involved in the financial rescue system, i.e., the Ministry of Finance and the Czech National Bank. Many steps have already been taken in this regard, and the desired status is within sight. Furthermore, let us look for ways to ensure sufficient resources beyond the scope of the Fund’s disposable resources. Let us ensure those resources for the long-term, whether from immediate and short-term resources, from the market or the state, subject to market conditions and for extraordinary situations, or from sources obtained through long-term operations on the market that will make it possible to replace operatively obtained resources.

We also see room for improvement in communication among the main institutions responsible for ensuring the country’s financial stability. There are, undoubtedly, many ways to structure the requisite communication and to build it effectively for the achievement of the sole and shared goals: to pay deposit compensation to bank clients in a timely and flawless manner.

Josef Tauber  
Chairman of the Board of Directors

## II. AUTHORISED REPRESENTATIVE

The Deposit Insurance Fund is managed by a five-member Board of Directors. The Chairman, Vice-Chairman, and other Members of the Board of Directors of the Deposit Insurance Fund (hereinafter referred to as "the Fund") are appointed and removed from office by the Minister of Finance. Pursuant to Section 41b (5) of the Act on Banks, at least one Member of the Deposit Insurance Fund's Board of Directors is appointed from among the employees of the Czech National Bank, at the recommendation of the Czech National Bank, and at least two Members of the Fund's Board of Directors are appointed from among the members of the boards of directors of banks. The term of office of individual Members of the Board of

Directors is five years, and one new Member is appointed every year. Members of the Board of Directors do not receive remuneration for carrying out their duties. The Deposit Insurance Fund's Board of Directors is the authorised representative of the Deposit Insurance Fund and manages the Fund's activities. The Board of Directors appoints an executive director, who is the head of the Deposit Insurance Fund's executive staff.

No personnel change occurred in the composition of the Board of Directors in 2011. At the end of 2010 Libor Löfler was replaced by Jiří Votrubec.

### Membership of the Board of Directors in 2011

<b>Chairman:</b>	<b>Josef Tauber</b> Advisor to the President of the Czech Banking Association
<b>Vice-Chairman:</b>	<b>Petr Vojtíšek</b> Deputy Director of a Czech National Bank Section
<b>Members:</b>	<b>Daniel Heler</b> Deputy CEO and Member of the Board of Directors of Česká spořitelna, a. s.
	<b>Michal Franěk</b> Departmental Director at the Ministry of Finance of the Czech Republic
	<b>Jiří Votrubec</b> Deputy Director and Vice-Chairman of the Board of Directors of Modrá pyramida stavební spořitelna, a. s.
<b>Executive Director:</b>	<b>Renáta Kadlecová</b>

**Executive Director:** **Renáta Kadlecová**  
 Διευθύνουσα Σύμβουλος  
 Deputy Director and Vice-Chairman of the Board of Directors of Modrá  
 Jiří Votrubec

## III. ACTIVITIES OF THE DEPOSIT INSURANCE FUND IN 2011

### Macroeconomic Developments in the EU and the Czech Republic in 2011

#### Czech Republic

2011, especially its second half, was marked by uncertainty due to the instability on the European financial markets. This instability was manifest across all European Union countries, including the Czech Republic. Predictions for the Czech Republic had expected economic growth slowdown to 1.9% and be driven primarily by foreign trade and to a lesser extent by fixed capital investments. However the situation at the end of 2011 proved somewhat worse than the prediction had indicated. GDP grew only at an annualized rate of 1.7% in 2011 compared to 2.6% in 2010. The significant loss of momentum in GDP growth can be related primarily to the decline in domestic consumption, as household and public sector spending account for 70% of GDP. Given that both these components and investments declined throughout the year, foreign trade remained the only growth factor. Government budget in 2011 did not perform very positively. The national budget deficit of CZK 142.8 bn was the third worst in history, with one of the main influences being the non-fulfilment of the optimistic expectation of growth in income tax revenue. The resulting average inflation rate, expressed as the increase of the consumer price index in 2011 compared to the 2010 average, was 1.9% (0.4 percentage points more than in 2010). It is lower than in many other European Union countries, but a closer look indicates that the prices of basic commodities, such as food, housing, and energies, including automobile fuel, increased much more, whereas the price of vacations, household furnishings, and other items of a relatively dispensable nature, decreased.

The labour market also manifested the impact of uncertainty, stagnation, and caution. The average registered unemployment rate for 2011 as a whole reached 8.6%, being 0.4% lower than in 2010. At the end of December 2011, a total of 129,951 job applicants were receiving unemployment benefits. In the European context, these values are undoubtedly very positive, as they are among the lowest on the continent. However this positive value was achieved by an increase in the number of entrepreneurs, with a repeated drop in the number of jobs based on employment. The trend indicates that laid-off employees do not have opportunities, in terms of another job. Wages did not diverge from the overall trend of 2011. The average nominal wage amounted to CZK 24,319, which is a year-on-year increase of 2.2%. Net of inflation, the resulting growth in real wages is 0.3%, which is the lowest result since 2000.

The above-mentioned factors, supported by bad news from Eurozone southern periphery countries, reflected in households exercising

caution in terms of their spending, the increasing volume of deposits, and greater prudence considering debt burden. Year on year, there was an increase in household deposits by CZK 82.7 bn., which is approximately the same level as in 2010. As for loans, the loan structure changed, with a decline in the dynamism of growth of high-interest loans such as consumer credit, overdraft loans, etc. There was an absolute drop in loans provided by building societies.

#### Financial Markets and the Banking Sector in the EU and the Czech Republic

In terms of the European Union, and particularly the Eurozone, last year was a period of significant differentiation and nearly constant efforts to address the current threat of the collapse of the Greek economy and the fundamental latent fiscal problems of other South European countries. On one hand, the break-up of the Eurozone threatened, and the financial markets essentially refused to accept any further debt financing of the problem countries, asking high risk premiums, while on the other hand, high demand for the bonds of stable Eurozone countries resulted in their very low interest burden. The critical situation pointed to the insufficiency of financial instruments in the Eurozone, revealing diametrically different approaches to the administration of public finance, ranging from very conservative to absolutely irresponsible. In order to prevent the collapse of the Greek economy and to prevent against the spread of fiscal problems to other countries, intensive negotiations were commenced among the countries of the Eurozone, the private sector, and international financial institutions. The main purposes were to ensure the continuity of financing, to convince financial markets about the trustworthiness and sustainability of the monetary union, and to find mechanisms that would make it possible to prevent the critical situation from being repeated, and to address that situation in a timely and a better manner.

The overall uncertainty that prevails due to the problems of the over-indebted countries of the Eurozone has essentially no great impact on the Czech banking sector. The main reasons are the financial houses' financial stability and conservative approach to risk, the fact that clients do not use risk instruments, and the quality of the work of the central bank.

Last year was a calm year for the Czech banking sector. All banks proved their stability and there are no signals that would give rise to distrust or questions as to their ability to meet their commitments. The soundness and resistance of the banking sector to negative influences was continuously tested by the Czech National Bank in 2011. The CNB assessed the results of the tests as at 31 December 2011 according to the two main variants as follows: "the banking sector as a whole remains stable in both main scenarios."

## Activities of the Deposit Insurance Fund in 2011

At the Deposit Insurance Fund, 2011 was marked by the making of organisational and technical arrangements for all of the requirements brought by the amendment to the Act on Banks at the end of 2010. The availability of compensation disbursements in the event of the bankruptcy of a bank, building society, or cooperative savings bank is now far higher.

In 2011, the insured financial institutions paid CZK 3.3 bn. to the Fund, and the aggregate amount managed by the Fund as at year-end amounted to CZK 21.8 bn. The Fund recovered CZK 3.3 mil. in a partial disbursement from the bankruptcy proceedings of První slezská banka, a. s.

The most important event of 2011 in terms of the Deposit Insurance Fund was the verification of the finding that the organisation of the disbursement of compensation has been fully arranged. The preparedness of the system for transmitting data between banks and the DIF, including all security requirements, was tested in roll-out tests at the end of 2011. All 34 of the banks tested passed without reservation.

The Fund underwent a security audit of its IT system that examined whether all of the data with which the Fund comes into contact are sufficiently secure. The data transmission method, a system for handling the data, and the powers of each of the employees operating with that data were defined. The audit confirmed the highest level of security of the Fund's systems.

A new bank that commenced operations in the Czech Republic in the second half of 2011 began making contributions to the Deposit Insurance Fund – Air Bank a. s. The market offering was also expanded by ZUNO BANK AG, organizační složka, which, however, falls under the Austrian deposit insurance system.

The innovations in the deposit insurance system were tested by the disbursement of compensations to the clients of the bankrupt Vojenská družstevní záložna. Depositors were entitled to deposit compensation in excess of 69 million crowns. As at 31 Dec. 2011, disbursements had been made to 186 clients, totalling CZK 66,568,234.68, i.e., 96.4% of the aggregate deposit compensation amount.

In 2011, negotiations continued about the European Commission's proposal to shorten the payment period from 20 business days to a mere 7 business days. The negotiations shifted to 2012, when they can be expected to yield an outcome.

First reading of the proposed directive in the European parliament took place on 16 Feb 2012. On this hearing it was approved that e.g. the period for payment of the compensations will be shortened to 5 working days, compulsory application of the risk weighted contributions, introduction of a target level of financial reserves or limitation of financial investments of deposit insurance funds to low-risk assets. We expect that during the 2012 it will be decided on acceptance of this directive. Shortened period for payment of contributions should be applicable since 2017.

## Role of the Deposit Insurance Fund

The Deposit Insurance Fund's mission is to help stabilise the Czech banking market. Its main role is to protect the clients of banks and other insured financial institutions from losses that they could incur should such institutions be unable to repay their deposits. In this way the Deposit Insurance Fund reinforces confidence in the banking system, in particular during periods of economic turbulence, contributing to general economic and financial balance.

Pursuant to the current legislation of the Czech Republic, which is fully in accordance with European Union directives, the deposits of a single depositor at a single bank have been insured in full up to an amount equivalent to EUR 100,000 as of 31 December 2010.

Since its establishment, the Deposit Insurance Fund has disbursed compensation for insured deposits of over CZK 25 billion. Payments have been made to approximately 300,000 clients of 12 banks and one cooperative savings bank that went bankrupt between 1995 and 2011. Currently, deposits totalling CZK 2.3 trillion at 37 financial institutions are insured through the Deposit Insurance Fund. These in turn contributed almost CZK 3.3 billion to the Fund in 2011.

## The Act on Banks

The activities of the Deposit Insurance Fund are regulated by means of Section 41a through Section 41o of the Act on Banks and the joint and transitional provisions of amendments to this Act.

Pursuant to the Act on Banks, all banks and branches of foreign banks, with the exception set forth in Section 41l of the Act on Banks and with the exception set forth in Section 5a of the Act on Banks, which came into effect as of the date on which the agreement of the Czech Republic's accession to the European Union came into force, are obliged to participate in the deposit insurance system and contribute to the Deposit Insurance Fund to the scope stipulated in the Act on Banks. Cooperative savings banks have been obligated to participate in the deposit insurance system and to contribute to this system in the scope determined by the Act on Banks, since 2006.

Pursuant to Section 41c of the Act on Banks, the insurance applies to all claims from deposits in Czech or foreign currency, including interest, when the requirements for identifying depositors are met in accordance with Section 41c (3) of the Act on Banks, if such deposits are registered as a credit balance on accounts or in deposit books, or which are endorsed through a deposit certificate, deposit note or other similar document. Individuals are identified by their name, surname, address, and date of birth or birth certificate number of the depositor, or an identification number, and legal entities by their business name or the name of the legal entity, its registered office and, in the case of domestic legal entities, by their identification number. The insurance does not apply to claims from the deposits of banks, financial institutions, health insurance companies, and state funds. Claims from

deposits that a bank is entitled to include in its capital (subordinated debt) are not insured either. The deposit insurance system does not apply to bills of exchange and other securities. In addition, pursuant to Section 41g (3) of the Act on Banks, those persons who have a special relationship to a bank and the holders of deposits arising in conjunction with the legalisation of proceeds resulting from criminal activities, for which they were sentenced by a court in criminal proceedings, are not entitled to compensation from the Deposit Insurance Fund.

Compensation for an insured claim from a deposit is granted to an entitled person only after the Deposit Insurance Fund has received notification in writing from the Czech National Bank that a bank is not able to meet its commitments to entitled persons under the legal and contractual terms and conditions. Compensation is granted both to individuals and legal entities and is disbursed in Czech currency. In 2010, Act No. 156/2010 Coll., took effect, amending Act No. 21/1992 Coll., on Banks, as amended. This Act brought about a number of significant changes to the deposit insurance system. Among the most fundamental are the following provisions: the setting of the maximum volume of the funds of the Deposit Insurance Fund, at 1.5% of the aggregate volume of receivables from the deposits insured with the Deposit Insurance Fund; a change in the periodicity of the payment of bank contributions to the Deposit Insurance Fund, from annual to quarterly, and a 60% increase of the contribution (the contribution newly amounts to 0.04% for banks and 0.02% for building societies, of the average volume of the receivables from deposits in the given calendar quarter); the possibility for the Fund to apply, if necessary, for a subsidy or refundable financial assistance from the government budget; in the event of the disbursement of deposit compensation, a change in the method of calculating deposit compensation (a change in the calculation of interest and the cancellation of the set-off of due receivables against the liabilities of entitled persons, up to the amount of the account balance); the obligation of banks to maintain a record of information and, in the event of a disbursement of compensation, to provide that information to the Fund; the obligation of the Fund to verify, on a regular basis, and at least once a year, the functioning of the deposit compensation disbursement system (i.e., bank data testing).

In line with the above-mentioned Act, the level of coverage for an entitled person was increased to EUR 100,000 as at 31 December 2010, and at the same time, the period for the commencement of the

disbursement of deposit compensation was shortened significantly, from 3 months to 20 business days, from the day on which the Czech National Bank declares a bank to be insolvent, i.e., unable to meet its commitments to entitled persons under the legal and contractual conditions.

On 1 April 2011, Ministry of Finance Regulation No. 71/2011 Coll., on the form, structure, and method of maintaining and providing the data that a bank and a foreign bank branch is obliged to keep and provide to the Deposit Insurance Fund, came into force. In line with the Regulation, a bank is obliged to provide information to the Fund both in the case of bank data testing and deposit compensation disbursement.

## Disbursement of Compensation

Pursuant to Section 41a (5) of the Act on Banks, financial funds, except the costs of Fund's activity, may only be withdrawn from the Fund for the compensation of claims from deposits to entitled persons and for repayment of the Fund's debts. Since its establishment, the Deposit Insurance Fund has disbursed compensation for deposits in 17 cases, granted in the form of 13 regular and four additional payments as compensation to depositors of twelve banks and one cooperative savings bank, totalling **CZK 25.5 billion**, as at 31 December 2011. In 2011, the Fund commenced the disbursement of compensation to the clients of Vojenská družstevní záložna, having paid out compensation totalling CZK 66.6 mil. as at 31 Dec. 2011.

During 2011, another part of an unwarranted disbursement of additional compensation to depositors of Moravia banka, a. s., of CZK 3.3 million was returned to the Fund's account. The reason why the Fund made this disbursement was because it had received incorrect data from the bankruptcy trustee (administrator) in 565 cases. After discovering this fact, the Fund asked clients who had received this unwarranted compensation to return it. The current total amount of compensation returned voluntarily by such persons after being ordered to do so by the Fund under a court decision, judicial settlement, or out-of-court agreement, is CZK 144.9 million<sup>1</sup>, which is about 80.2% of the total unwarranted compensation disbursed. Hence the total compensation disbursed by the Deposit Insurance Fund is reduced by the above amount.

<sup>1</sup> In 2004, compensation of CZK 18.56 million was returned that had been debited to disbursed deposit compensation; since 2005 this has formed part of the Fund's income (see table on page 16 – The Fund's Main Cash Flow – History)



Table No 1 | **Disbursement of Compensation from the Deposit Insurance Fund to 31/12/2011**  
(in CZK mil.)

Bank	Deposit compensation 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. **	6,397.75	11/10/1999
Union banka, a. s.	12,367.01	17/5/2003
Plzeňská banka, a. s.	135.70	7/6/2003
Vojenská družstevní záložna	66.57	30/5/2011
<b>TOTAL</b>	<b>25,530.93</b>	

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

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

## Receivables of the Deposit Insurance Fund from Banks

Pursuant to Section 41 h (2) of the Act on Banks, starting with the disbursement commencement date, the Fund will become a creditor of a bank that has failed to meet its commitments under the legal and contractual terms and conditions, within the scope of the rights of the entitled persons of the bank to be paid by the Fund. Of the 12 banks and one cooperative savings bank paid out, bankruptcy proceedings have been completed in only three cases. Of the amount of disbursed compensation for deposits, which had reached CZK 25.5 billion as at 31 December 2011, CZK 23.4 billion of receivables were recognised in bankruptcy proceedings. The receivables from additionally disbursed deposit compensation concerning Pragobanka, a. s., Universal banka, a. s., and Moravia banka, a. s., were not recognised, because the Deposit Insurance Fund, when reporting them, neither met, nor could have met, the time limits for

reporting the claims laid down by the Bankruptcy and Composition Act valid at the time. In fact the amendment to the Act on Banks, under which the Deposit Insurance Fund disbursed this additional compensation, was adopted after the expiry of the relevant time limits. The Fund did not succeed in its request for the recognition of these claims in court proceedings.

The table below shows a summary of the Fund's receivables from the individual banks, registered as at 31 December 2011, for the bankruptcy and liquidation proceedings of disbursed banks. Of the total registered receivables of CZK 21,893.1 million, a preliminary distribution schedule has been drawn up for five banks, with a total received advance payment for the Fund of CZK 4,087.5 million. In 2011, the Fund received an advance as a part of the partial distribution in the case of První slezská banka, a. s., amounting to CZK 3.3 mil. The Fund currently has CZK 17,805.6 million of receivables registered against banks.



Table No 2 | **Overview of Registered Receivables in Bankruptcy and Liquidation Proceedings as at 31/12/2011**

(in CZK mil.)

Bank	Type of disbursement	Registration for bankruptcy/liquidation	Returned to the Fund	Receivable in bankruptcy/liquidation
Česká banka, a. s.	Regular	518.56		
	Additional	443.11		961.67
AB banka, a. s.	Regular	0.23	0.02	0.21
První slezská banka, a. s.	Regular	217.50	10.87	206.63
Realitbanka, a. s.	Regular	24.20		24.20
Velkomoravská banka, a. s.	Regular	1,006.63		1,006.63
Kreditní banka Plzeň, a. s.	Regular	580.95	49.38	531.56
Universal banka, a. s.	Regular	1,862.64	302.29	1,560.35
Moravia banka, a. s.	Regular	4,753.70		4,753.70
Union banka, a. s.	Regular	12,416.54	3,724.96	8,691.58
Vojenská družstevní záložna	Regular	69.05		69.05
<b>Total</b>		<b>21,893.11</b>	<b>4,087.52</b>	<b>17,805.58</b>

As for bankruptcy proceedings terminated by the end of 2011, 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., and Plzeňská banka, a. s.

This means that as at 31 December 2011 the Fund no longer has any receivables from these three banks. A summary of these satisfied receivables including received revenues and yield is given in the following table.

Table No 3 | **Summary of the Proceeds of Receivables Against Banks at Completed Bankruptcy Proceedings as at 31/12/2011**

(in CZK mil.)

Bank	Type of disbursement	Total amount of receivable	Returned to the Fund	Yield (%)
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
<b>Total</b>		<b>1,558.58</b>	<b>803.52</b>	<b>51.55</b>

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

## Contributions by the Insured Institutions

In 2011, banks paid quarterly contributions to the Fund, in line with the newly enacted Act No. 156/2010 Coll. Overall,

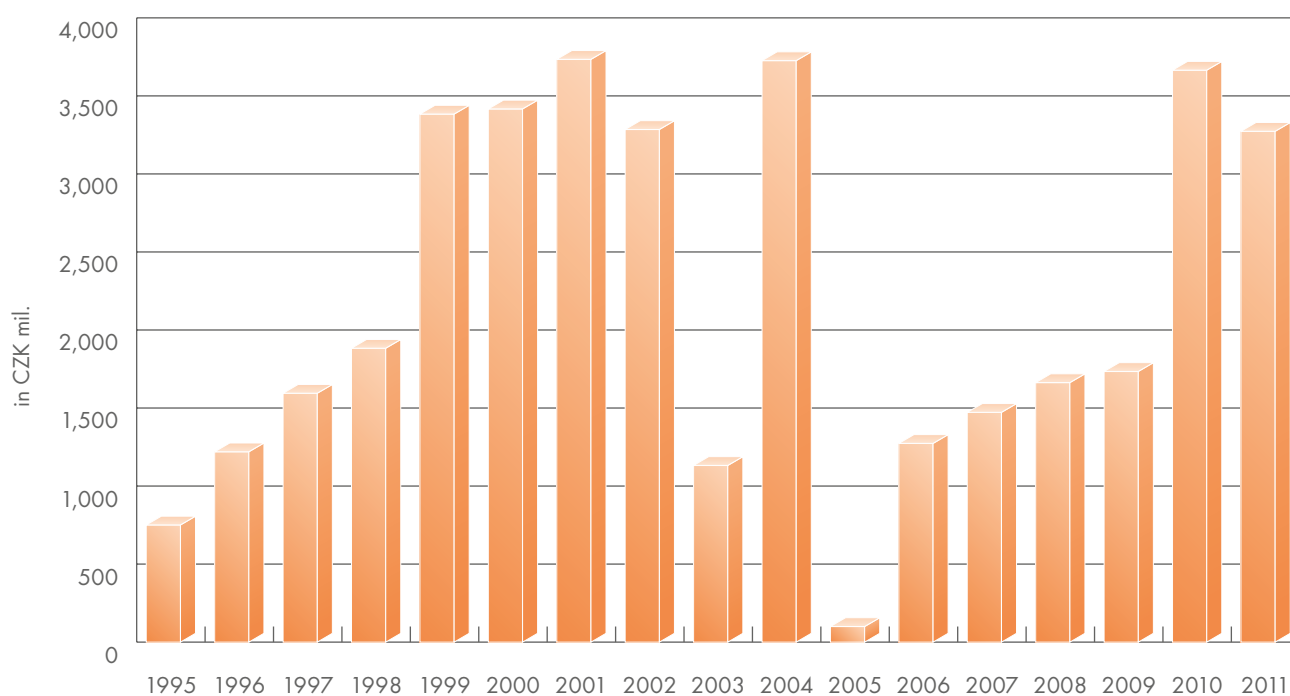
banks paid contributions for the 4<sup>th</sup> quarter of 2010 and the 1<sup>st</sup> to 3<sup>rd</sup> quarters of 2011 totalling CZK 3,329.4 mil. The table below shows an overview of the contributions received by the Fund since its establishment in 1994.

Table No 4 | Contributions by Insured Institutions to the Fund, by Year of Contribution Payment

Contribution payment year	Amount in CZK mil.
1995	807.04
1996	1,275.93
1997	1,651.06
1998	1,939.37
1999	3,439.68
2000	3,472.68
2001	3,790.52
2002	3,341.04
2003	1,188.38
2004	3,782.24
2005	156.32
2006	1,329.59
2007	1,528.63
2008	1,719.18
2009	1,790.58
2010	3,721.03
2011	3,329.39
<b>Total</b>	<b>38,262.66</b>

Note: In 2004, an advance for the payment of a contribution due in 01/2005 was paid.  
In 2010, the periodicity of payments changed from annual to quarterly as at 1 July.

Graph No 1 | Contributions Paid to the Fund, by Year of Payment

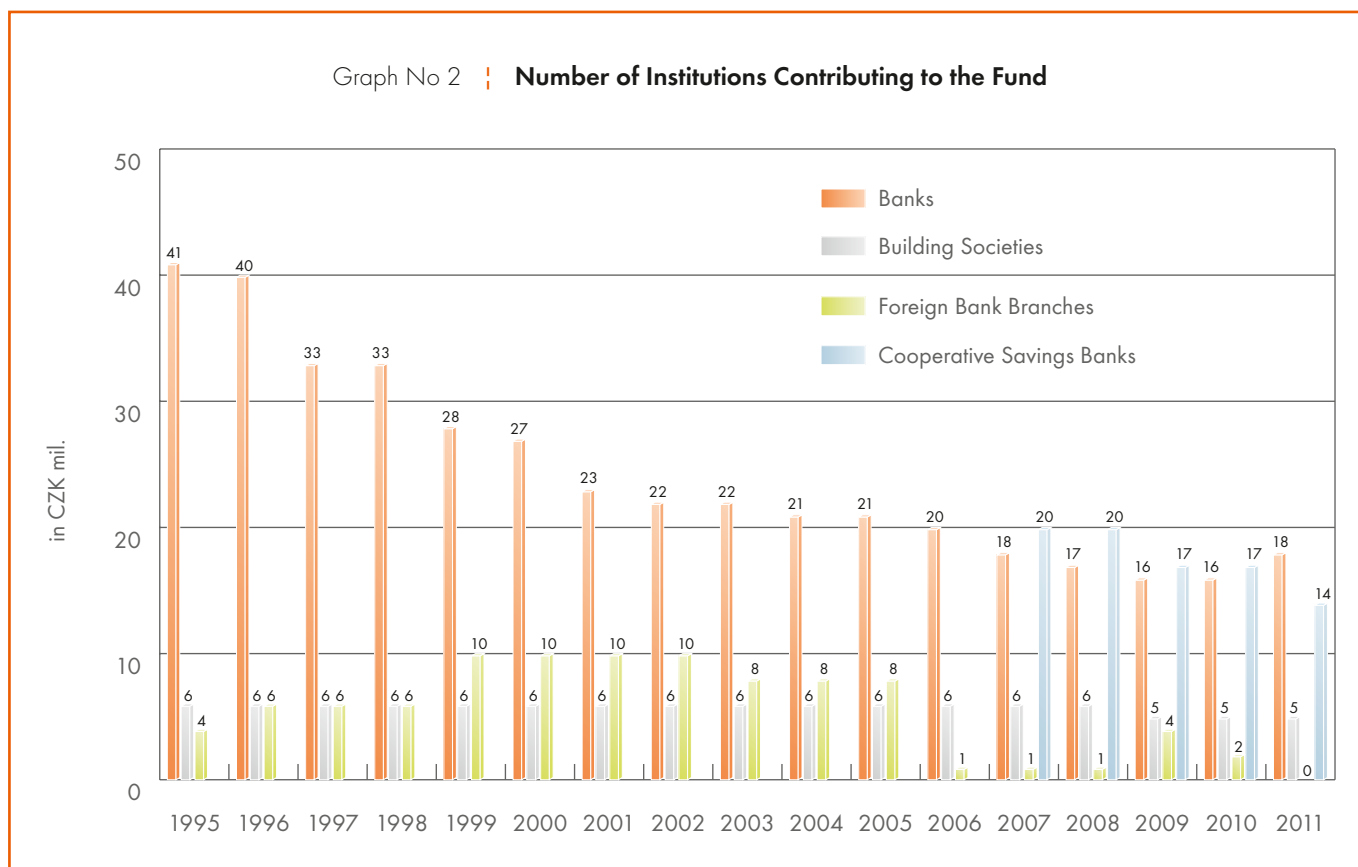


As of 1 July 2010, the contribution amount is governed by the amended Act on Banks, No. 156/2010 Coll., Sec. 41c (6) and (7).

A bank's contribution to the Fund amounts to 0.04% of the average volume of the insured receivables from deposits for the relevant calendar quarter. The average volume of the insured receivables from deposits is calculated by the bank, according to the amount of the insured receivables from deposits as at the last day of each calendar month in the given calendar quarter, including any interest to which the depositor was entitled as at the same date. The calculation is made in Czech crowns. In the case of receivables from deposits maintained in foreign currencies, the currency exchange rate announced by the Czech National Bank as at the date on which the calculation is performed is used.

The contribution of a building society to the Fund amounts to 0.02% of the average volume of the insured receivables from deposits for the relevant calendar quarter. The average volume of the insured receivables from deposits is calculated by the building society, according to the amount of the insured receivables from deposits as at the last day of each calendar month in the given calendar quarter, including any interest to which the depositor was entitled as at the same date, without factoring in advances on government support. A bank is obliged to pay its contribution to the Fund for the given calendar quarter by the end of the calendar month subsequent to the end of the calendar quarter. The contribution is paid in Czech crowns. Due to the harmonisation of the insurance protection amounts in EU countries, all topping-up agreements were terminated in 2010, one by one. In 2010, no branch of a foreign bank paid contributions to the Fund in 2011.

Graph No 2 : Number of Institutions Contributing to the Fund



### International Cooperation

The Deposit Insurance Fund is a member of two international associations of similar organisations: the European Forum of Deposit Insurers (EFDI) and the International Association of Deposit Insurers (IADI). The Fund also engages in bilateral cooperation with similar organisations, both in the EU and world-wide. The main topic of cooperation among deposit insurance systems on

the European level was the discussions about the planned changes in the Commission directive on deposit guarantee schemes that is expected to be enacted in the first half of 2012. The main subject of discussions was the impact of the proposed changes in terms of a further shortening of the compensation disbursement period on the flawless and fault-free disbursement of deposit compensation. A special seminar held at the annual meeting of the EFDI in Belgrade in May was devoted to the issue of the financing of

deposit insurance systems that will also be the subject of the new legal regulation drafted by the European Commission.

At the International Association of Deposit Insurers, seminars were launched concerning the application of the Core Principles for Effective Deposit Insurance Systems issued by the Basel Committee for Banking Supervision and IADI, and the related newly drafted Methodologies for the Application of the Principles. After basic seminars focused on the theoretical part, practical seminars were held devoted to the pilot testing of deposit insurance systems in selected countries. The 10<sup>th</sup> annual meeting of the IADI was held in Warsaw in October and the related conference was devoted to the issue of the need to strengthen the system of financial stability, to the role of deposit insurance systems in the financial safety net, and to the necessity of developing a functional system for the resolution of bank bankruptcies regardless of their size.

As for bilateral cooperation, the Fund's representatives visited the Bulgarian Insurance Deposit Fund. Their discussions focused primarily on issues concerning new IT and SW systems for deposit compensation disbursement, investment strategy, and strategy for obtaining financial resources for covering deposit compensation disbursements.

At the end of 2011, the fund was visited by an IMF mission to update the Financial Sector Assessment Programme (FSAP).

## Investment Activities

The total volume of the Fund's financial reserves at the end of 2011 reached CZK 21,788 million. The financial reserves of the Deposit Insurance Fund are divided into three portfolios: the Mark to

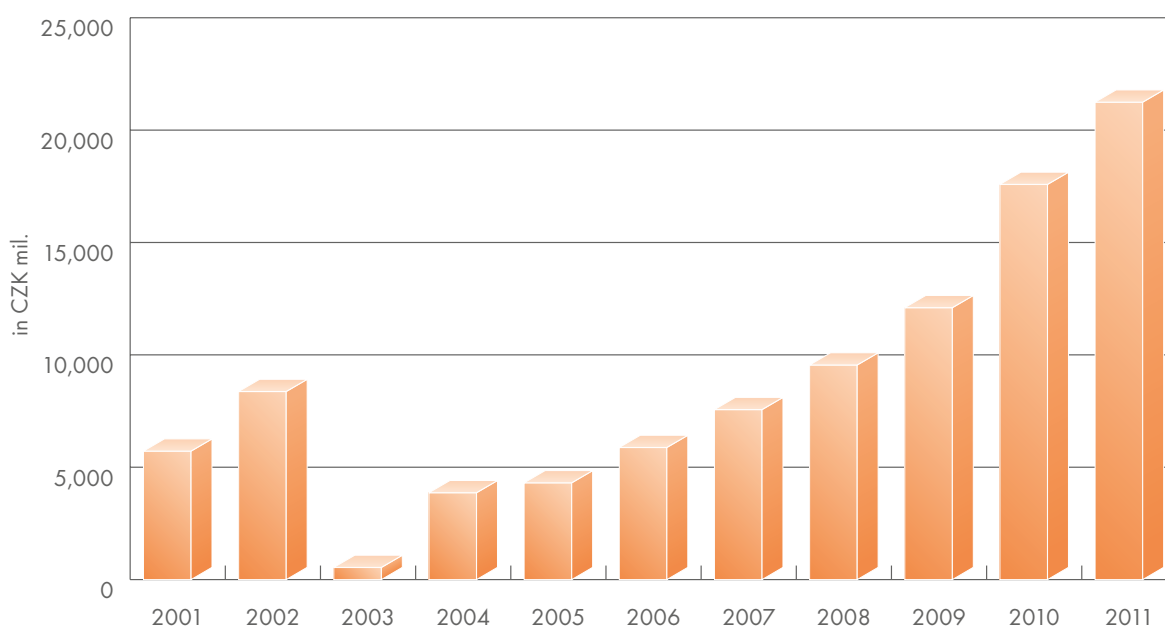
Market Portfolio (MTM Portfolio), managed by three investment managers; the Hold to Maturity Portfolio (HTM Portfolio), managed by a single investment manager; and the Short-term Portfolio, managed directly by the Deposit Insurance Fund.

The financial reserves managed in the Mark to Market Portfolio were invested primarily into short-, medium-, and long-term domestic government bonds, and to a lesser extent into bonds issued by banks and corporations in Czech crowns and selected foreign currencies, while maintaining the minimum limit for bond issuers, of an S&P A rating. The portfolio was restructured in 2011 on the basis of a new investment strategy, which meant an increase in the share of domestic government bonds to the detriment of bonds issued by banks and corporations. The duration of the Mark to Market Portfolio is targeted between 2 and 3 years. As at the end of 2011, the Mark to Market Portfolio's share of the total volume of the Deposit Insurance Fund's financial reserves amounted to 56%.

The Hold to Maturity Portfolio was increased by CZK 400 million during the course of the year. This portfolio only comprises domestic government bonds and its duration is targeted between 6 and 7 years. As at the end of 2011, the HTM Portfolio's share of the total volume of the Deposit Insurance Fund's financial reserves amounted to 14%.

The financial reserves administered directly by the Deposit Insurance Fund through the Short-term Portfolio were invested only into treasury bills and Buy/Sell transactions with treasury bills issued by the Czech Ministry of Finance or the Czech National Bank. As at the end of 2011, the Short-term Portfolio's share of the total volume of the Deposit Insurance Fund's financial reserves amounted to 30%.

Graph No 3 | Trend in the Volume of the Fund's Financial Reserves 2001–2011



The financial reserves of the Deposit Insurance Fund as at the end of 2011 were comprised mostly of medium-term and long-term domestic

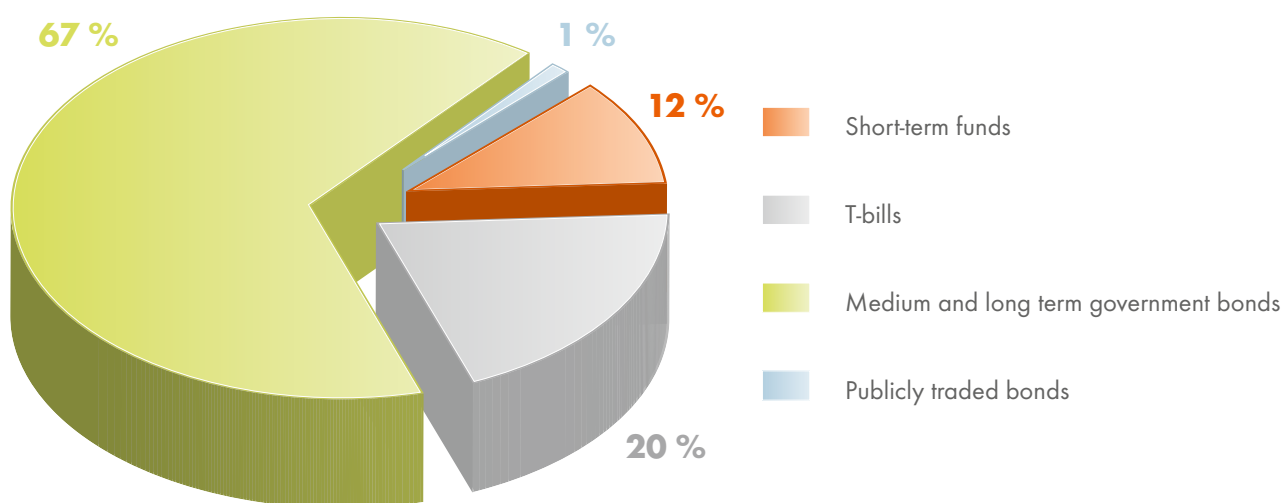
government bonds (67%), short-term domestic government bonds (20%), and short-term funds (12%).

Table No 5 | **Structure of Financial Reserves by Instrument, as at 31/12/2011**

Type of instrument	Market value in CZK mil.
<b>I. Current accounts, term deposits, receivables*)</b>	<b>2,601.32</b>
<b>II. Bonds:</b>	<b>19,186.54</b>
Of which: treasury bills and Czech National Bank bills	4,435.62
Medium- and long-term government bonds	14,474.74
Bank and corporate bonds (publicly traded bonds)	276.18
<b>III. Total</b>	<b>21,787.86</b>

\*) Receivables from buy & sell operations, receivables from issuers from unpaid coupons

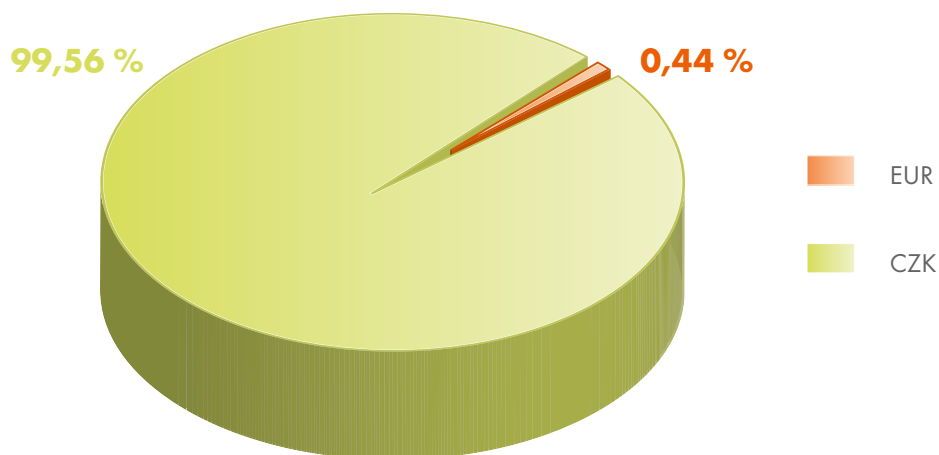
Graph No 4 | **Structure of Financial Reserves by Instrument, as at 31/12/2011**



As at the end of 2011, the financial reserves of the Deposit Insurance Fund consisted of short-term funds and bonds, denominated primarily in CZK (99.56%). Of the financial instruments denominated in foreign

currencies, the financial reserves mostly consisted of a smaller amount of bonds issued in EUR (0.44%).

Graph No 5 | Structure of Financial Reserves by Currency, as at 31/12/2011



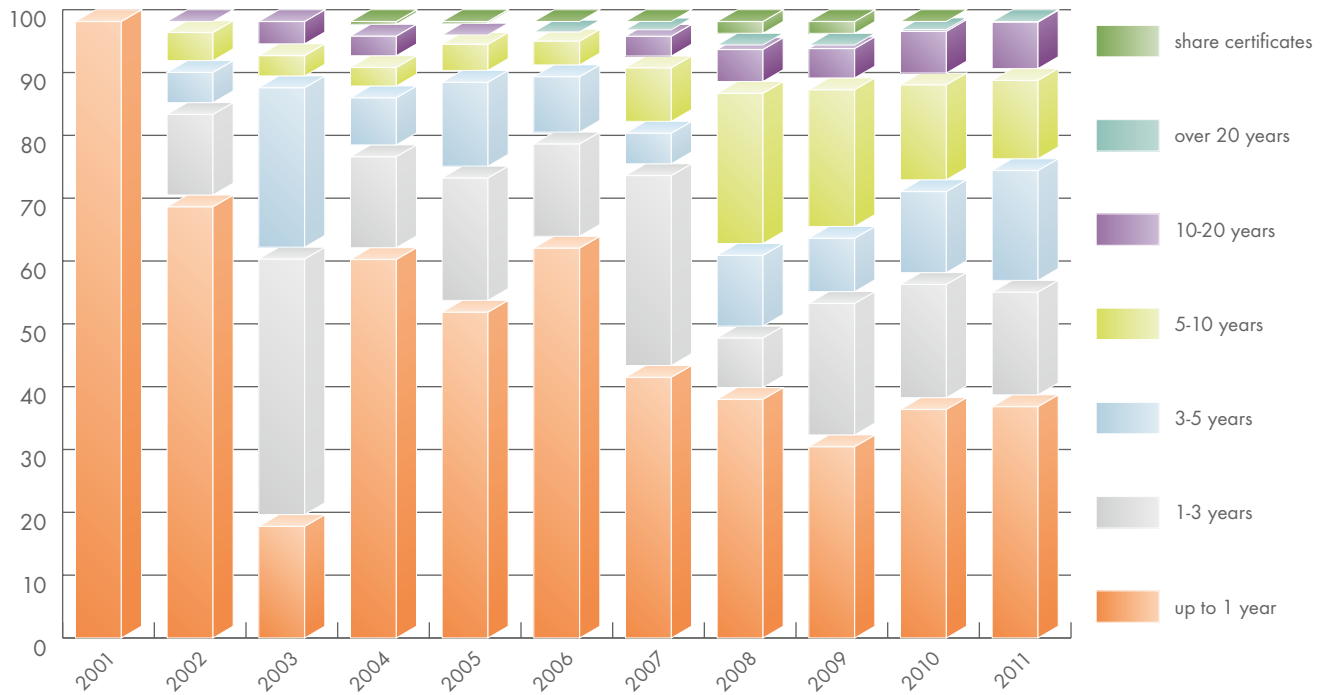
Debt instruments maturing within 1 year (38%), between 1 and 3 years (18%), and between 5 and 10 years (19%), made up the

largest share of the volume of the financial reserves.

Table No 6 | Structure of Financial Reserves by Maturity, as at 31/12/2011

Instrument maturity	Market value in CZK mil.
I. Up to 1 year	8,431.47
II. 1 to 3 years	3,970.49
III. 3 to 5 years	4,219.01
IV. 5 to 10 years	3,127.39
V. 10 to 20 years	2,021.31
VI. More than 20 years	18.19
VII. Total	21,787.86

Graph No 6 | Development of the Portfolio of Financial Reserves by Maturity



The total gross yield from the financial reserves of the Deposit Insurance Fund for 2011 reached 2.20% p.a., which represented

approximately CZK 443 million in financial terms.



## IV. MAIN CASH FLOWS OF THE FUND – HISTORY

Table No 7 | Summary Overview of the Income and Expenses of the Fund, 1995–2011 (in CZK mil.)

<b>I.</b>	<b>Income</b>	<b>50,791.40</b>
	Contributions from banks 1995–2011	38,262.83
	Income from judicial composition and bankruptcy	4,892.07
	Returns of disbursed compensation	126.62
	Returned non-disbursed compensation advances	60.08
	Interest received and other revenues	4,449.80
	– investment income	4,432.48
	– other financial revenue	17.32
	Loans received	3,000.00
<b>II.</b>	<b>Expenditure</b>	<b>28,993.60</b>
	Disbursement of deposit compensation 1995–2011	25,670.14
	Operating expenses	202.30
	Interest paid	121.16
	Loan repayments	3,000.00
<b>III.</b>	<b>Difference between income and expenditure</b>	<b>21,797.80</b>

No events took place after the balance sheet date, which could have material impact on the financial statements as at 31 December 2011.

The financial statements were approved by the Board of Directors of the Fund and signed on the basis of its authorisation:

31 May 2012



Josef Tauber

Chairman of the Board of directors



Ing. Petr Vojtíšek

Member of the Board of Directors

## V. INDEPENDENT AUDITOR'S REPORT



### *Independent auditor's report* to the Administration board of Fond pojištění vkladů

We have audited the financial statements of Fond pojištění vkladů, identification number 497 10 362, with registered office at Růžová 15, Praha 1 ("the Fund") for the year ended 31 December 2011 disclosed in the annual report on pages 18–33 and issued the opinion dated 31 May 2012 and disclosed on page 19.

#### Report on the Annual Report

We have verified that the other information included in the annual report of the Fund for the year ended 31 December 2011 is consistent with the financial statements referred to above. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

#### *Auditor's Responsibility*

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

#### *Opinion*

In our opinion, the other information included in the annual report of the Fund for the year ended 31 December 2011 is consistent, in all material respects, with the financial statements.

31 May 2012

PricewaterhouseCoopers Audit, s.r.o.  
represented by partner

Petr Kříž FCCA  
Statutory Auditor, Licence No. 1140

#### 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.

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T: +420 251 151 111, F: +420 251 156 111, [www.pwc.com/cz](http://www.pwc.com/cz)

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

# *Fond pojištění vkladů*

Independent auditor's report  
and financial statements

For the year ended 31 December 2011

Note

The financial statements have been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.



**pwc**

## *Independent auditor's report* to the Administration Board of Fond pojištění vkladů

We have audited the accompanying financial statements of Fond pojištění vkladů, identification number 497 10 362, with registered office at Růžová 15, Praha 1 ("the Fund"), which comprise the balance sheet as at 31 December 2011, the income statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

### *Statutory Body's Responsibility for the Financial Statements*

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2011 and its financial performance for the year then ended in accordance with Czech accounting legislation.

31 May 2012

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Petr Kříž FCCA

Statutory Auditor, Licence No. 1140

#### 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.

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# NOTES TO THE 2011 FINANCIAL STATEMENT

FOND POJIŠTĚNÍ VKLADŮ	Registered seat:	Růžová 15; Prague 1
	Identification number:	49710362
	Financial statement date:	31 December 2011
	Date of the compilation of the financial statement:	31 May 2012

## BALANCE SHEET AS AT 31 DECEMBER 2011

ASSETS	as at 31 December 2010 (CZK'000)	as at 31 December 2011 (CZK'000)
<b>A. Total fixed assets</b>	<b>2,567,663</b>	<b>3,084,511</b>
<b>I. Intangible fixed assets – software</b>	<b>2,553</b>	<b>2,553</b>
<b>II. Tangible fixed assets</b>	<b>1,906</b>	<b>2,053</b>
Works of art, objects and collections	0	46
Buildings	297	297
Machinery and equipment	1,609	1,710
<b>III. Long-term investments – bonds, debentures and similar securities held to maturity</b>	<b>2,564,600</b>	<b>3,082,246</b>
<b>IV. Total accumulated depreciation of fixed assets:</b>	<b>(1,396)</b>	<b>(2,341)</b>
Accumulated depreciation of software	(222)	(1,051)
Accumulated depreciation of buildings	(17)	(23)
Accumulated depreciation of machinery and equipment	(1,157)	(1,267)
<b>B. Total current assets</b>	<b>33,328,646</b>	<b>36,529,522</b>
<b>II. Total receivables</b>	<b>20,587,751</b>	<b>20,388,830</b>
Advances paid	161	156
Accounts receivable from term transactions	10,226	0
Other receivables	20,577,364	20,388,674
<b>III. Total short-term financial assets</b>	<b>12,740,804</b>	<b>16,140,620</b>
Cash	20	6
Stamps and vouchers	30	15
Bank accounts	123,415	36,305
Shares and similar securities held for trading	235,172	0
Bonds, debentures and similar securities held for trading	12,382,167	16,104,294
<b>IV. Total other assets</b>	<b>91</b>	<b>72</b>
Prepaid expenses	91	71
Accrued revenues	0	1
<b>Total assets</b>	<b>35,896,309</b>	<b>39,614,033</b>

FOND POJIŠTĚNÍ VKLADŮ	Registered seat:	Růžová 15; Prague 1
	Identification number:	49710362
	Financial statement date:	31 December 2011
	Date of the compilation of the financial statement:	31 May 2012

## BALANCE SHEET AS AT 31 DECEMBER 2011 (CONTINUATION)

LIABILITIES	as at 31 December 2010 (CZK'000)	as at 31 December 2011 (CZK'000)
<b>A. Total equity</b>	<b>35,877,564</b>	<b>39,605,430</b>
<b>I. Equity</b>	<b>34,637,996</b>	<b>37,963,750</b>
<b>II. Total profit/loss</b>	<b>1,239,568</b>	<b>1,641,680</b>
Profit/loss for the period	526,996	402,112
Retained earnings	712,572	1,239,568
<b>B. Total liabilities</b>	<b>18,745</b>	<b>8,603</b>
<b>III. Total short-term liabilities</b>	<b>18,745</b>	<b>8,603</b>
Payables to suppliers	7,875	128
Other liabilities	752	0
Payables to employees	530	715
Payables to social security and health insurance	341	461
Other direct tax liabilities	136	191
Payables from fixed term operations	0	107
Other payables	6	2,484
Estimated payables	9,105	4,517
<b>Total liabilities</b>	<b>35,896,309</b>	<b>39,614,033</b>



FOND POJIŠTĚNÍ VKLADŮ	Registered seat:	Růžová 15; Prague 1
	Identification number:	49710362
	Financial statement date:	31 December 2011
	Date of the compilation of the financial statement:	31 May 2012

## PROFIT AND LOSS YEAR ENDED 31 DECEMBER 2011

	Main activity (CZK'000)
<b>A. Expenses</b>	
<b>I. Total consumed purchases</b>	<b>232</b>
1. Material consumption	232
<b>II. Total services</b>	<b>11,511</b>
5. Repairs and maintenance	35
6. Travel expenses	698
7. Representation expenses	108
8. Other services	10,670
<b>III. Total personnel expenses</b>	<b>7,045</b>
9. Wages and salaries	5,109
10. Obligatory social security	1,759
12. Obligatory social expenses	79
13. Other social expenses	98
<b>IV. Total taxes and fees</b>	<b>35</b>
14. Road tax	2
16. Other taxes and fees	33
<b>V. Total other expenses</b>	<b>205,769</b>
21. Foreign exchange losses	35
24. Other expenses	205,734
<b>VI. Depreciation and assets sold</b>	<b>4,080,343</b>
25. Depreciation of intangible and tangible fixed assets	1,024
27. Securities and investments sold	4,079,319
<b>Total expenses</b>	<b>4,304,935</b>

FOND POJIŠTĚNÍ VKLADŮ	Registered seat:	Růžová 15; Prague 1
	Identification number:	49710362
	Financial statement date:	31 December 2011
	Date of the compilation of the financial statement:	31 May 2012

## PROFIT AND LOSS YEAR ENDED 31 DECEMBER 2011 (CONTINUATION)

	Main activity (CZK'000)
<b>B. Revenues</b>	
<b>IV. Total other revenues</b>	<b>177,667</b>
15. Interest revenues	22,874
16. Foreign exchange gains	3
18. Sundry other revenues	154,790
<b>V. Revenues from sale of assets</b>	<b>4,529,380</b>
20. Revenues from sale of securities and investments	4,056,069
22. Revenues from short-term financial assets	356,980
24. Revenues from long-term financial assets	116,331
<b>Total revenues</b>	<b>4,707,047</b>
<b>C. Profit/loss before tax</b>	<b>402,112</b>
<b>D. Profit/loss after tax</b>	<b>402,112</b>

# 1. GENERAL INFORMATION

The Deposit Insurance Fund (hereinafter referred to as "the Fund", registered in the commercial register as Fond pojištění vkladů) was incorporated in the Commercial Register on 29 December 1994 under Act No. 156/94 Coll. which amends Act No. 21/1992 Coll. on Banks, and its registered office is in Prague 1, Růžová 15. The Fund's main activity is providing compensation to owners of deposits that are legal entities or individuals under the terms and conditions specified by law. Identification number of the Fund is 497 10 362. The Fund does not run any other activity. Pursuant to the provisions of Act No. 586/1992 Coll. on Income Tax, as amended, the Fund's income is exempt from income tax.

The members of the Board of Directors as at 31 December 2011 were as follows:

	<b>Position</b>
Josef Tauber	chairman
Petr Vojtíšek	vice-chairman
Jiří Votrubec	member
Daniel Heler	member
Michal Franěk	member

Michal Franěk	member
Daniel Heler	member
Jiří Votrubec	member
Petr Vojtíšek	vice-chairman
Josef Tauber	chairman

*At the end of 2010, Libor Löffler was replaced by Jiří Votrubec.*

## 2. ACCOUNTING POLICIES

### 2.1 | Basic principles of preparing financial statements

The financial statements are compiled in accordance with the accounting regulations valid in the Czech Republic and the Czech accounting standards for non-profit organizations. The financial statements are compiled at historical prices except for derivatives and securities that are reported at fair value. The amounts in the financial statements are rounded to thousands of Czech crowns, unless otherwise stated.

### 2.2 | Fixed tangible and intangible assets

Purchased fixed tangible and intangible assets are stated at acquisition cost for which the assets were acquired including expenses incurred in connection with the acquisition.

Fixed tangible assets are depreciated by straight line method based on their estimated useful life and tax rates.

Repair and maintenance expenses of fixed tangible assets are booked directly to expenses.

Tangible assets with a useful life of more than year and an acquisition price not exceeding CZK 40,000 per item are charged directly to expenses at the moment when they are put in use.

Fixed intangible assets are amortised by straight line method over 3 years and tax rates.

Intangible assets with a useful life of more than one year and an acquisition price not exceeding CZK 60,000 per item are charged directly to expenses at the moment when they are put in use.

### 2.3 | Securities, investments and related income

The Fund classifies securities and investments as held for trading and held to maturity.

#### **Securities held for trading:**

Securities held for trading are securities which the Fund holds for the purpose of transactions generating profit from short-term price fluctuations, within a period not exceeding one year.

Securities and investments are stated upon their purchase at acquisition cost including transaction expenses. Securities held for trading are carried at fair value. The Fund applies the market value of securities as at 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 Fund management.

Interest income from securities held for trading includes accrued coupons, discounts and premiums on securities held for trading and are disclosed as Revenues from short-term financial assets.

Profits and losses arising from changes in the fair value of securities held for trading are recognized in the profit and loss account as Sundry other revenues in the period in which they arise.

**Securities held to maturity:**

Securities held to maturity are non-derivate financial assets with a fixed or pre-determined yield and fixed maturity for which the Fund has the intent and ability to hold them to maturity. If the Fund sold other than an insignificant amount of these assets, this entire category would be moved to the Securities held for trading.

Acquisition of Securities held to maturity is recognised at the purchase price including transaction costs and further valuated at amortised costs.

Interest income from securities held to maturity includes accrued coupons, discounts and premiums on securities held for trading and are disclosed as Revenues from long-term financial assets.

**Repo and buy-sell operations:**

Collateralized receivables as part of repo and buy-sell transactions are reported under the Other receivables including accrued interest. Interest from these transactions is accrued for the duration of such a transaction and booked to interest revenues.

**2.4 | Financial derivatives**

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

All derivatives are reported as receivables from fixed term operations if they have a positive fair value or as payables from fixed term operations if their fair value is negative.

Changes in the fair value of trading financial derivatives are recognized in the profit and loss account.

**2.5 | Foreign currency conversions**

Transactions made in foreign currencies are converted and posted using the exchange rate valid as at the transaction date. All monetary assets and liabilities in foreign currencies were converted by the exchange rate published by the Czech National Bank ("ČNB") as at the balance sheet date. All exchange rate gains and losses from the receivables and payables translations are recognized in the profit and loss account.

The foreign exchange gains and losses of securities valued at fair value and managed in foreign currencies are considered as a part of the fair value.

**2.6 | Contributions received from banks**

Contributions received from banks are charged directly to the fund account included in equity funds of the Fund. The contributions are recognised according to real receipts thereof in course of the current year and they are not accrued because they constitute contributions for the relevant current year. The preceding quarter of the year forms the calculation base for the contribution amount.

**2.7 | Allowances for receivables**

The Fund does not create adjustments to receivables nor does it account for them in accordance with Section 37 (1) of Decree No. 504/2002 Coll. of the Ministry of Finance of the Czech Republic, implementing some provisions of Act No. 563/1991 Coll. on Accounting.

## 2.8 | Payables to bank clients and receivables from banks and cooperative savings unions (Other receivables) that could not meet their commitments to clients

In accordance with the provision of the Ministry of Finance of the Czech Republic and an internal accounting regulation for accepted contributions, disbursement of compensation and related cases, the Fund, based on the decision of the Ministry of Finance of the Czech Republic to commence the disbursement, recognises payables to the bank clients, which the compensation is disbursed for, against the reduction of the amount of managed funds account included in equity financing. The claim at the same amount is posted for the banks which cannot meet their commitments to their clients, against the funds in equity financing.

## 2.9 | Equity/ Fund

The result of the period is based on a decision of the Administration board transferred either to Retained earnings or to the Fund included in Equity. The subsequent transfer of Retained earnings to the Fund is possible based on a decision of the Administration board.

## 2.10 | Subsequent events

The impact of events that occurred between the balance sheet date and the date of the financial statements is entered in the accounting statements in case that such events provide additional information about the facts which existed as at the balance sheet date.

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

## 3. ADDITIONAL INFORMATION TO THE BALANCE SHEET AND PROFIT AND LOSS STATEMENT

### 3.1 | Other receivables

(CZK'000)	31 December 2011	31 December 2010
Receivables from compensations paid out	17,805,581	17,739,793
Receivables from repo operations	2,549,762	2,794,392
Receivables from duplicity payments	17,971	24,821
Receivables from accrued coupons	15,360	18,358
<b>Other receivables – total</b>	<b>20,388,674</b>	<b>20,577,364</b>

Other receivables contain receivables due from banks and cooperative savings unions which did not meet their commitments to their clients as at 31 December 2011 and amounted to CZK 17,805,581 thousand (as at 31 December 2010: CZK 17,739,793 thousand).

No adjustments were created to these receivables based on the provision of Ministry of Finance of the Czech Republic (see note 2.7).

### 3.2 | Debt securities held to maturity

#### Debt securities held to maturity at amortised costs:

(CZK'000)	31 December 2011	31 December 2010
Debt securities held to maturity	3,082,246	2,564,600

Debt securities held to maturity as at 31 December 2011 and 2010 consisted of Czech government bonds.

### 3.3 | Securities held for trading

Fair value of securities held for trading:

(CZK'000)	31 December 2011	31 December 2010
Debt securities held for trading	16,104,294	12,382,167
Equity securities held for trading	0	235,172
	<b>16,104,294</b>	<b>12,617,339</b>

Securities held for trading as at 31 December 2011 and 2010 consisted of Czech government bonds in the amount of 94.7% and 79.5% of the portfolio value, respectively. The remaining part of the portfolio comprises bank and corporate bonds with a minimum rating of issuer A set by S&P, government bonds of EU countries, receivables from buy-sell operations with government T-bills or T-bills issued by the Czech National Bank and investment certificates.



### 3.4 | Statement of changes in the account funds

The Fund has no registered capital. Equity funds consist of the fund account and of the profit/loss. Review of changes to the fund account:

(CZK'000)	31 December 2011	31 December 2010
<b>The Deposit Insurance Fund</b>		
Opening balance as at 1 January	<b>34,637,996</b>	<b>30,648,887</b>
Contributions received (note 3.6)	3,329,394	3,721,034
Transferred profit/loss	0	268,984
New receivables from insolvent banks	69,050	0
Written-off receivables and payables from compensation disbursements	(3,600)	(308)
Calculated compensation disbursements	(69,090)	(601)
<b>Closing balance as at 31 December</b>	<b>37,963,750</b>	<b>34,637,996</b>

On 30 May 2011, the Fund started to pay compensation to clients of Vojenská družstevní záložna. Out of the total expected compensation in the amount of CZK 69.1 million, recorded as New receivables from insolvent banks, the Fund managed to pay out CZK 66.6 million, i.e. 96.4% by December 2011.

### 3.5 | Payables

Payables from compensation disbursements as at 31 December 2011 amounted to CZK 2,482 thousand (31 December 2010: CZK 0).

Payables from social and health security as at 31 December 2011 amounted to CZK 461 thousand (31 December 2010: CZK 341 thousand), of which CZK 323 thousand (31 December 2010: CZK 238 thousand) of social security payables and CZK 138 thousand (31 December 2010: 102 thousand) of health security payables. None of these payables were overdue.

In 2011 tax liabilities amounted to CZK 191 thousand (31 December 2010: 136 thousand). None of these payables were overdue.

### 3.6 | Banks' contributions

Contributions are recognised on the basis of the real receipt thereof and are not accrued (see note 2.6).

(CZK'000)	31 December 2011	31 December 2010
Contributions from banks received	3,329,394	3,721,034

## 3.7 | Summary of revenues and expenses of the current and previous accounting periods

(CZK'000)	31 December 2011	31 December 2010
<b>Revenues:</b>		
Revenues from the sale of securities	4,056,069	5,546,671
Revenues from short-term financial assets	356,980	421,646
Revenues from long-term financial assets	116,331	94,038
Other revenues (see paragraph 3.8)	177,667	306,283
	<b>4,707,047</b>	<b>6,368,638</b>
<b>Expenses:</b>		
Securities sold	(4,079,319)	(5,636,446)
Amortisation of fixed intangible and tangible assets	(1,024)	(292)
Purchases consumed	(232)	(313)
Services	(11,511)	(8,265)
Personnel costs	(7,045)	(4,934)
Taxes and fees	(35)	(244)
Other expenses (see paragraph 3.8)	(205,769)	(191,148)
	<b>(4,304,935)</b>	<b>(5,841,642)</b>

## 3.8 | Other revenues and other expenses

Other revenues and other expenses are structured as follows:

(CZK'000)	31 December 2011	31 December 2010
<b>Revenues:</b>		
Interest on deposits and T-bills	22,874	18,655
Exchange rate gains	3	10
Exchange rate revenues from securities transactions and change in the fair value of derivatives held for trading	67,779	208,829
Change in fair value of securities for trading	87,009	78,789
Other	2	0
<b>Other revenues in total</b>	<b>177,667</b>	<b>306,283</b>
<b>Expenses:</b>		
Exchange rate losses	(35)	(12)
Exchange rate losses from securities transactions and change in the fair value of derivatives held for trading	(82,278)	(144,814)
Change in fair value of securities for trading	(122,029)	(45,182)
Other	(1,427)	(1,140)
<b>Other expenses in total</b>	<b>(205,769)</b>	<b>(191,148)</b>

Of the total interest income of the year 2011 of CZK 22,874,000 (2010: CZK 18,655,000) of interest revenues, revenues from buy-sell operations account for CZK 19,652,000 (2010: CZK 15,281,000).

Profits from 2010 amounting to CZK 526,996 thousand were transferred to retained earnings from previous years. Profits from 2011 amounting to CZK 402,112 thousand are proposed for transfer to retained earnings from previous years.

The average number of the Fund's employees is five, including one manager. Total personnel expenses in 2011 amounted to CZK 7,045 thousand (2010: 4,934 thousand).

The Fund did not provide any remuneration, advances or loans to members of the Board of Directors in 2011 or 2010. In 2011 and 2010 the Fund did not contribute to the Executive Director for his life insurance and did not provide him with any compensation in kind.

### 3.9 | Litigations

Three actions were filed against the Deposit Insurance Fund in 2010 and 2011:

(1) Action for payment of CZK 1,561,731,947.00 with attributions, referring to the claim for damages in the above stated amount, which allegedly arose by the failure of the defendant, i.e. the Deposit Insurance Fund, to pay within the statutory term in accordance with Act No. 443/2006 Coll., in the wording effective until 2 March 2007 compensations for insured deposits to clients of Kreditní banka Plzeň, a.s. The Deposit Insurance Fund proceeded in compliance with the Act on Banks and did not pay the compensation because the Czech National Bank in agreement with the Ministry of Finance of the Czech Republic had extended the term for compensation disbursement. The relevant part of the mentioned Compensation Act was subsequently cancelled by ruling of the Supreme Court of the Czech Republic dated 15 February 2007 with effect from 2 March 2007.

The Fund's opinion is supported by the fact that in several litigations for damages first instance courts in their rulings confirmed validity of the disbursement term extension. The court accepted as sufficiently proved that the Czech National Bank extended the compensation disbursement term according to the Compensation Act by additional three months. In the court's opinion the Fund acted fully in accordance with law and no basic prerequisite of its liability for loss could be found. In addition, the claim is statute-barred, according to the court. The Fund has numerous legal arguments to support the Fund and therefore also the potential success of the Fund in this case.

The District Court in Prague 1 ordered the relevant hearing for 2 May 2012. This hearing resulted in the following court ruling: The action is dismissed in its full extent and the defendant has been adjudicated full compensation of costs of proceedings. Because the first instance court accepted the Fund's assertions, we may reasonably suppose that even any appeal proceedings should end for the benefit of the Fund.

(2) Action for payment of CZK 1,406,963,367.00 with attributions. The claim is based on the provisions of the second part of Article III par. 4 of Act No. 443/2006 Coll., i.e. the claimant requests a pecuniary compensation.

In this case we have to note that the proceedings will be suspended in order to receive an assessment of a legal issue / legal issues related to the process of extending the term for starting disbursements set by the Act No. 443/2006 Coll. The Fund's position is supported by the fact that in several litigations for damages first instance courts in their rulings decided that the disbursement term extension process was de iure free of any defects, i.e. the Fund had never been in any delay regarding the disbursements. The Fund has numerous legal arguments to support the Fund and therefore potential success of the Fund in this case.

(3) Action for payment of CZK 1,621,470,327.00 with attributions. The claim is based on the provisions of the second part of Article III par. 1 of Act No. 443/2006 Coll., i.e. the claimant requests an additional compensation.

In this dispute the claimant tries to assert duplicity of the claim based on interpretation of the relevant legal regulations, which refer to claims for additional compensation payments, as well as to constitutional legislation. Although this action is drawn in a slightly different manner than the preceding case, we may apply the same comments as above. Also in this case legal representatives of the Fund have enough legal arguments to support the future success of the Fund in the legal proceedings.

Of course, it is necessary to note that a court ruling in any case cannot be anticipated exactly.

The Fund does not create provisions for litigations and, according to § 40 part 1 of decree no. 504/2002 Coll. Ministry of Finance of the Czech Republic, implementing some provisions of Act No. 563/1991 Coll. on Accounting, does not account about them.

### 3.10 | Possible liabilities

On 8 March 2012, the ČNB rescinded the licence of the savings cooperative UNIBON – spořitelní a úvěrní družstvo. In the event that a liquidator appointed by the court finds out that the property as at the date the liquidation begun is not sufficient, the Fund would have to pay compensation for the remaining insured deposits of its clients. The compensation from the Fund will be paid if it receives a written announcement from the Czech National Bank on its incapability to fulfil its liabilities to clients based on the legal and contractual conditions (§ 41d section 1 Act No. 21/1992 Coll., on bank). The Czech National Bank will send this announcement when the liquidator demonstrably identifies and supports with relevant accounting documents this inability to meet its liabilities.

### 3.11 | Subsequent events

No events took place after the balance sheet date, which could have material impact on the financial statements as at 31 December 2011.

The financial statements were approved by the Board of Administration of the Fund and signed on the basis of its authorisation.

31 May 2012



Josef Tauber

Chairman of the Board of Administration



Petr Vojtíšek

Vice-chairman of the Board of Administration