

ANNUAL REPORT 2013



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I. INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



Although it may seem that 2013 was a peaceful year from the perspective of the financial sector in the Czech Republic, a closer look shows that trends were set, primarily on the European level, that will most likely have a fundamental impact on the financial sector of Europe and, of course, of this

country, as well as on the deposit insurance system.

That impact does not consist merely of the adoption of major decisions or the enactment of new legislation or of the resolution of emergency situations, but also of broader work on integration processes across European countries and institutions. A vigorous integration process in the financial area became the main opinion stream in 2013 and a strong guide for legislative anchoring. For national deposit insurance systems, this means increased pressure for adaptation not only in the legislative sphere, but, above all, increasing demands in terms of the right set-up of processes, increased effort to achieve an appropriate anchoring of the deposit insurance system in the national financial safety net, increased requirements in terms of qualification and support systems, and increased costs of the operation and security of the systems. The future will show that what we are seeing is the beginning of an entirely new arrangement of financial sector risk management, including the financial resolution mechanism. It is not only about technical matters such as risk-weighted contributions, a gradual shortening of the payment period from the present 20 to 15 days by 2019, and to the target 7 days by 2024, or the obligation to inform about deposit insurance in bank statements. The newly forming arrangement of the banking union will include harmonised rules for deposit insurance systems and their functioning and for mutual cooperation. All this with the goal of absolutely eliminating the involvement of the government (government budgets) and thereby also of all tax payers in costs related to rescuing problem banks. The mission of deposit insurance systems is being redefined on the institutional level in terms of the systems' involvement in the restructuring of problem banks. All of the developments outlined mean not only a major intervention in existing legislative rules and powers, with an emphasis on eliminating problems before they escalate in a fatal way, but also an inevitable increase in the scope and intensity of cooperation of the parties

involved in the financial safety net who today operate in a rather isolated manner and cooperate on the minimum level prescribed by applicable legislation. This confirms that the efforts of the Deposit Insurance Fund (hereinafter referred to as "the Fund"), in promoting and emphasising, on a sustained and consistent basis, an improvement of cooperation, are on the right track.

As much as revolutionary changes can be expected in terms of developments on the European level, I can again note with contentment that 2013 in the Czech Republic was a year of profitability, stability, and even growth in the trustworthiness of banks. The Deposit Insurance Fund contributed to the stability of the banking sector and to confidence among the public in the safety of their deposits in banks, building societies, and in cooperative credit unions. The Fund paid out compensation for the Úvěrní družstvo PDW without any problems and successfully coped with a crisis in one of the largest credit unions – the Metropolitní spořitelní družstvo (MSD) which had 13,000 clients with deposits of approximately CZK 12 bn. On 18 December, the CNB withdrew MSD's licence to operate as a cooperative credit union and four days before the end of the year, the Fund started to prepare for paying out deposit compensation. The Fund continuously and openly informed the clients concerned, which contributed to the successful management of the preparation of compensation disbursement.

By its on-going active communication, the Fund not only reduced the risk of the transfer and spreading of financial nervousness, but it also carried out preventive and awareness activities in order to increase financial literacy, primarily among seniors. It enhanced its operational and technical preparedness by concluding agreements about making disbursements through to 2017. It was somewhat dismaying that only two banks signed up for the tender. A tender for portfolio management, which was called in July and then again in November, generated similarly low interest.

In 2014, continued efforts can be expected on the European level in setting the trends in the form of formulating the legislative proposals to which 2013 opened the door. On the local level, we will most likely see a tightening of the rules for cooperative credit unions. I am convinced that the stability of the Czech financial market will continue to strengthen on a sustained basis and that the Deposit Insurance Fund will again fully live up to its role of a stabilising factor on the financial market and an active and strong member of the financial safety net in 2014.

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 are appointed and removed from office by the Minister of Finance. Pursuant to Section 41b (6) 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 (hereinafter referred to as the "CNB" or 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, with one Member being 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 2013. Mr. Josef Tauber was again appointed Chairman of the Board of Directors for a five-year term on 7 December 2013.

Membership of the Board of Directors in 2013

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

Executive Director: **Renáta Kadlecová**
of Modrá pyramida stavební spořitelna, a. s.
Deputy Director and Member of the Board of Directors
Jiří Votruba
the Czech Republic

III. ACTIVITIES OF THE DEPOSIT INSURANCE FUND IN 2013

Macroeconomic Developments in the Global Economy and in the Czech Republic in 2013

2013 was characterised by diverging economic developments in the United States and in the European Union. The inflow of figures from the US economy which pointed to strengthened economic growth, as manifest in an increasing number of new jobs, led the US central bank to start to gradually decrease the volume of government and mortgage bonds it purchases to stimulate the economy since the end of 2008. Economic developments in the European Union took a different route: the surprisingly low inflation and an absence of visible economic growth led to a further monetary policy easing when the European Central Bank cut the basic interest rate at its November meeting.

At the end of 2013, the Czech Republic got out of the longest recession in its history, which had lasted for six consecutive quarters and resulted in a cumulative GDP drop of 2.8%. A turn in development came in Q4, when we noted a rapid economic growth driven by export-oriented industrial production. Declining inflation and the related CNB currency intervention were major topics in 2013. Since October 2012, when inflation was still high at 3.4%, it had dropped significantly, to a mere 1.4% in December 2013, with administrative measures, primarily tax adjustments, playing a dominant role in the already low growth in prices. Furthermore, CNB's prediction expected a further drop, to deflation levels, at the beginning of 2014 in connection with the waning of the impact of the tax adjustments. Given that the CNB had exhausted its room for further interest rate cuts, it decided, after a long period of verbal proclamations, to intervene on the FX market, which resulted in a sudden weakening of the crown from around CZK 25.7/EUR to around CZK 27.5/EUR. According to the CNB, interventions will continue if necessary, with levels of at least CZK 27/EUR remaining the target level.

It is unquestionable that primarily the crisis in Cyprus, which again showed the vulnerability of financial markets and economies and the limited ability to appropriately respond to such situations, was manifest in the form of negative sentiment, going down to the corporate and household level. It still holds true, however, that the negative sentiment in the Czech Republic is not based on objective facts as much as on the lack of positive stimulus that would outweigh the negative reports.

Negative consumer sentiment was also visible in the development of non-term and term household deposits, which grew by approximately 2.37% in aggregate. Term deposits dropped approximately by 5.2%. The drop was driven primarily by a significant reduction of medium-term deposit (by nearly 20%) and a slight reduction in

short-term deposits (by approximately 5.3%). Long-term deposits grew slightly, by 4.6%. The overall growth in volume to CZK 1,812 bn was caused primarily by an increase in non-term deposits which exceed term deposits (CZK 715 bn) in volume, by nearly CZK 382 bn, i.e., more than 53%, which is not quite standard, but which is typical for the Czech Republic.

Deposits of non-financial enterprises manifested only a slightly different structure, amounting in absolute figures to CZK 776 bn as at 31 December 2013, having grown by nearly 8.5% year on year. Unlike in the case of households, however, all forms of term deposits were down, amounting to a mere CZK 122 bn, i.e., less than 16% of the aggregate volume.

Banks again generated significant net profits in 2013, which will enhance their stability and resistance, unless all of their profits are taken out of the country. With aggregate net profits in excess of CZK 61 bn, 2013 was second, next to the historically most profitable year, 2012 (CZK 63 bn). This means that the banking sector has persisted in being on a steady profit-growing trajectory since 2002 (CZK 27 bn), and the sector successfully remains spared the adverse impacts and problems of financial markets both overseas and in Europe. The stress tests carried out by the Czech National Bank in 2013 had positive results, like in the previous year.

Total net profit in the cooperative credit union sector dropped to approximately half the 2012 figure, reaching CZK 25 mil. This low figure indicates that the cooperative credit union sector is still waiting to find a period of stability.

On the macroeconomic level, the Czech Republic did not succeed in achieving overall growth. Real GDP dropped by 0.9%, with even foreign trade contributing to the negative result, unlike in 2012. On the other hand, expenses on final consumption, which were slightly up, had a positive impact, unlike in 2012. The GDP dropped in the first three quarters, to be partially offset by the fourth quarter. This may be a promise of the beginning of a positive trend which will continue in 2014. The Czech Republic was both below the average year-on-year development of the EU (0.1%) and of the eurozone (-0.5%).

Also the development of real wages was adverse. Real wages dropped both in the business and non-business sectors, achieving a year-on-year reduction of 1.3%. The indicator of the general unemployment rate was at 6.8%, which means in comparison with 2012 0.4% less. According to the internationally comparable EUROSTAT methodology, the unemployment rate in the Czech Republic was 6.4%, which puts the Czech Republic in the 4th best place in the EU, shared with Denmark, deep below the European

averages, both of the EU as a whole (10.6%), and of the eurozone (11.9%).

Annual inflation reached 1.4%, remaining below the CNB inflation target. Inflation rate would be even lower without the impact of the VAT increase as at 1 January 2013. During the course of the year monthly inflation oscillated around zero, with a slight overall correction of the January increase. The final figure was significantly influenced by December, when prices grew by 0.4%, probably also due to the CNB FX intervention. The annual value of the harmonised consumer price index in the Czech Republic reached 1.5%, being above both the average eurozone (0.9%) and overall EU (1.0%) levels.

Government budget ended with a lower deficit than in 2012, of CZK 81.3 bn. The relatively favourable result was caused by income growing faster than expenses, in particular non-tax and capital income, where income from the EU budget played the main role. Overall, the year's balance of income and payments to the EU was positive, and rather high, at CZK 84 bn. Except for VAT, tax income remained beyond budgetary expectations.

Activities of the Deposit Insurance Fund in 2013

In 2013, the Fund successfully tested the functioning of the compensation disbursement system on two occasions, when in line with Ministry of Finance Regulation No. 71/2011 Coll., it tested the client data of all banks, building societies, and credit and savings cooperatives participating in the deposit insurance system. The first test took place in March – May 2013 and the second in October – November 2013.

At the beginning of 2013, on the basis of an announcement of the Czech National Bank dated 13 February 2013, the Fund commenced and then continuously carried out the disbursement of compensation for the deposits of the clients of Úvěrní družstvo PDW, Praha v likvidaci, which had become unable to live up to its obligations to entitled persons based on statutory and contractual conditions. The disbursement of deposit compensation to the cooperative's clients was commenced by the Fund on 11 March 2012 through two selected GE Money Bank branches. At the end of 2013, the Fund commenced, on the basis of an announcement of the Czech National Bank dated 27 December 2013, preparatory works for the disbursement of compensation for the deposits of clients of Metropolitní spořitelni družstvo v likvidaci, which had become unable to live up to its obligations to entitled persons based on statutory and contractual conditions. The preparatory works included the calling of a mini-tender for the disbursement bank. The disbursement of deposit compensation was then commenced by the Fund on 27 January 2014 through 627 selected branches of Česká spořitelna, a.s. Throughout 2013, the Fund also carried on in the disbursement of compensation for the deposits of clients of Vojenská

družstevní záložna v likvidaci and UNIBON – spořitelni a úvěrní družstvo v likvidaci, which it had begun earlier.

In 2013, stage two of the three-year cycle of internal IT audits took place. It was implemented by KPMG Česká republika, s.r.o. This phase focused on strategy, in line with the regulations, on data management, physical security, and on the deposit compensation disbursement process. The last stage of that cycle will take place in 2014. In 2013, the process of expanding the functionalities of the POVYNAL application was commenced, with the addition of the possibility of cooperating with executors and of settling third-party receivables (cases of executions, reservations, inheritance, assignment of receivables, etc.).

In 2013, the Fund awarded several public contracts in compliance with Act No. 137/2006 Coll., on public procurement, as amended. The public contracts included: 1. Above-the-limit public contract for the conclusion of a General Agreement regulating the conditions for arranging disbursement of deposit compensation to clients of paid-out banks that become unable to live up to their obligations to entitled persons from statutory or contractual conditions; 2. Below-the-limit public contract for the selection of the supplier for the administration and modification of the POVYNAL IT application (application for processing client data both in the mode of deposit compensation disbursement pursuant to Act No. 21/1992 Coll., on Banks, and in the mode of verifying the correctness of the maintenance of that data pursuant to Regulation No. 71/2011 Coll.); 3. Below-the-limit public contract for the provision of legal services. The tendering procedure for the assignment of an above-the-limit public contract for the Management of the Portfolio of Investment Instruments, Related Custody and Settlement of Securities, had to be cancelled due to defects in the bids of all bidders. A new tender was called, which should end in 2014.

In line with its long-term strategy of preliminary arrangements to secure liquidity, the Fund performed a marketing survey in order to find out about the possibilities of financing through a syndicated loan. Within the scope of its strategy of preliminary arrangements to secure liquidity, the Fund also updated the prospectus of the bond programme.

In the course of 2013, the insured institutions made a total contribution to the Deposit Insurance Fund of CZK 3,749.8 mil., with the total volume of the Fund's financial reserved amounting to CZK 28,602 mil. at the end of 2013. The liquidation of Vojenská družstevní záložna was completed in 2013; the proceeds of the liquidation, amounting to CZK 45.5 mil., were transferred to the account of the Deposit Insurance Fund.

At the end of 2013, the Fund has performed an analysis of the impact of the new legislation, the Act No. 89/2012 Coll., The Civil Code (hereinafter referred to as "the NCC"), on the status and activities of the Fund. Given the Fund is a public institution constituted by a special law, the new legislation NCC (including the related new legal regulation of business corporations) does not affect the legal status of

the Fund nor does it significantly interfere in the internal legal relations of the Fund. As far as the contractual rights is concerned, with regard to the NCC's transitional provisions, the contractual rights and obligations, the Fund has entered into before the NCC became effective, shall continue to be governed by the hitherto valid laws, except for the lease contract of commercial premises in which the seat of the Fund is located. However, the new common legislation regarding lease does not require changing the wording of the contract as it is not in conflict with the new legislation. The new legislation introduced by the NCC will be fully applied to the contracts the Fund will enter into after 1 January 2014, which the Fund will take into account when setting up the rights and obligations within the new contractual relations.

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 were insured in full up to an amount equivalent to EUR 100,000 in 2013.

Currently, deposits totalling CZK 2.6 trillion at 35 financial institutions are insured through the Fund. These in turn contributed almost CZK 3.7 billion to the Fund in 2013.

The Act on Banks

The activities of the Deposit Insurance Fund are regulated by means of Section 41a through Section 41o and of the joint and transitional provisions of Act No. 21/1992 Coll., on Banks, as amended (hereinafter referred to as the "Act"). Pursuant to the Act on Banks, all banks and building societies 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 credit unions 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. The above mentioned deposit insurance system members, i.e., the banks, the building societies and the cooperative credit unions, are hereinafter altogether referred to as "the insured institutions".

Pursuant to Section 41c of the Act, 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, 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, foreign 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 (2) of the Act, those persons who have a special relationship to a bank and persons who are otherwise authorised, if their deposit was found, by an effective judgement, to have originated from a criminal activity.

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 live up to 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 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, from which the contribution is reduced significantly; 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 cooperative credit unions 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 live up to 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 an insured institution and a foreign insured institution branch is obliged to keep and provide to the Deposit Insurance Fund, came into force. In line with the Regulation, an insured institution 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 41 a (5) of the Act, 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 19 cases, granted in the form of 15 regular and four additional

payments as compensation to depositors of twelve banks and two cooperative credit unions, totalling CZK 27.3 billion, as at 31 December 2013. In 2013, the Fund commenced the disbursement of compensation to the clients of Úvěrní družstvo PDW, Praha v likvidaci, having paid out compensation totalling CZK 15.1 million, as at 31 Dec. 2013.

During 2013, another part of an unwarranted disbursement of additional compensation to depositors of Moravia banka, a. s., of CZK 0.2 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 148 million¹, which is about 81.9% of the total unwarranted compensation disbursed. Hence the total compensation disbursed by the Deposit Insurance Fund is reduced by the above amount.

¹ 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-IV. The Fund's Main Cash Flow – History)

Table No 1 | **Disbursement of Compensation from the Deposit Insurance Fund to 31/12/2013**
(in CZK mil.)

Insured Institutions	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. **	6,394.92	11/10/1999
Union banka, a. s.	12,366.79	17/5/2003
Plzeňská banka, a. s.	135.70	7/6/2003
Vojenská družstevní záložna	68.34	30/5/2011
UNIBON, spořitelni a úvěrní družstvo	1,800.33	23/7/2012
Úvěrní družstvo PDW, Praha	15.06	11/3/2013
TOTAL	27,345.04	

* 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 the Insured Institutions

Pursuant to Section 41h (2) of the Act, starting with the disbursement commencement date, the Fund will become a creditor of an insured institution that has failed to live up to 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 two cooperative credit unions paid out, bankruptcy proceedings have been completed in only four cases, and liquidation was completed in one case. Of the amount of disbursed compensation for deposits, which had reached CZK 27.3 billion as at 31 December 2013, CZK 25.3 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 2013, for the bankruptcy proceedings of disbursed banks. Of the total registered receivables of CZK 23,627.4 million, a preliminary distribution schedule has been drawn up for five banks, with a total received advance payment for the Fund of CZK 4,217.9 million. The Fund currently has CZK 19,409.5 million of receivables registered against banks.

Table No 2 | **Overview of Registered Receivables in Bankruptcy and Liquidation Proceedings as at 31/12/2013**
(in CZK mil.)

Insured Institutions	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
Velkomoravská banka, a. s.	Regular	1,006.63		1,006.63
Kreditní banka Plzeň, a. s.	Regular	580.95	49.39	531.56
Universal banka, a. s.	Regular	1,862.64	432.67	1,429.97
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
UNIBON, spořitelní a úvěrní družstvo	Regular	1,806.58		1,806.58
Úvěrní družstvo PDW, Praha	Regular	20.97		20.97
Total		23,627.41	4,217.91	19,409.50

As for bankruptcy proceedings terminated by the end of 2013, 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., and composition within the framework of the completed liquidation of Vojenská družstevní záložna, a.s. The bankruptcy of Realitbanka, a.s.

was ended due to a lack of assets. This means that as at 31 December 2013 the Fund no longer has any receivables from these four banks and one cooperative credit unions. A summary of these satisfied receivables including received revenues and yield collected within the course of ended bankruptcy and liquidation is given in the following table.

Table No 3 | **Summary of the Proceeds of Receivables against the Insured Institutions at Completed Bankruptcy Proceedings and Liquidation as at 31/12/2013**

(in CZK mil.)

Insured Institutions	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
Realitbanka, a. s.	Regular	24.20	0.00	0.00
Vojenská družstevní záložna	Regular	69.05	45.55	65.97
Total		1,651.83	849.07	51.40

* 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 2013, the insured institutions paid quarterly contributions to the Fund, in line with the newly enacted Act No. 156/2010 Coll.

Overall, banks paid thus contributions in 2013 for the 4th quarter of 2012 and the 1st to 3rd quarters of 2013 totalling CZK 3,749.8 mil. The table below shows an overview of the contributions received by the Fund since its establishment in 1994.

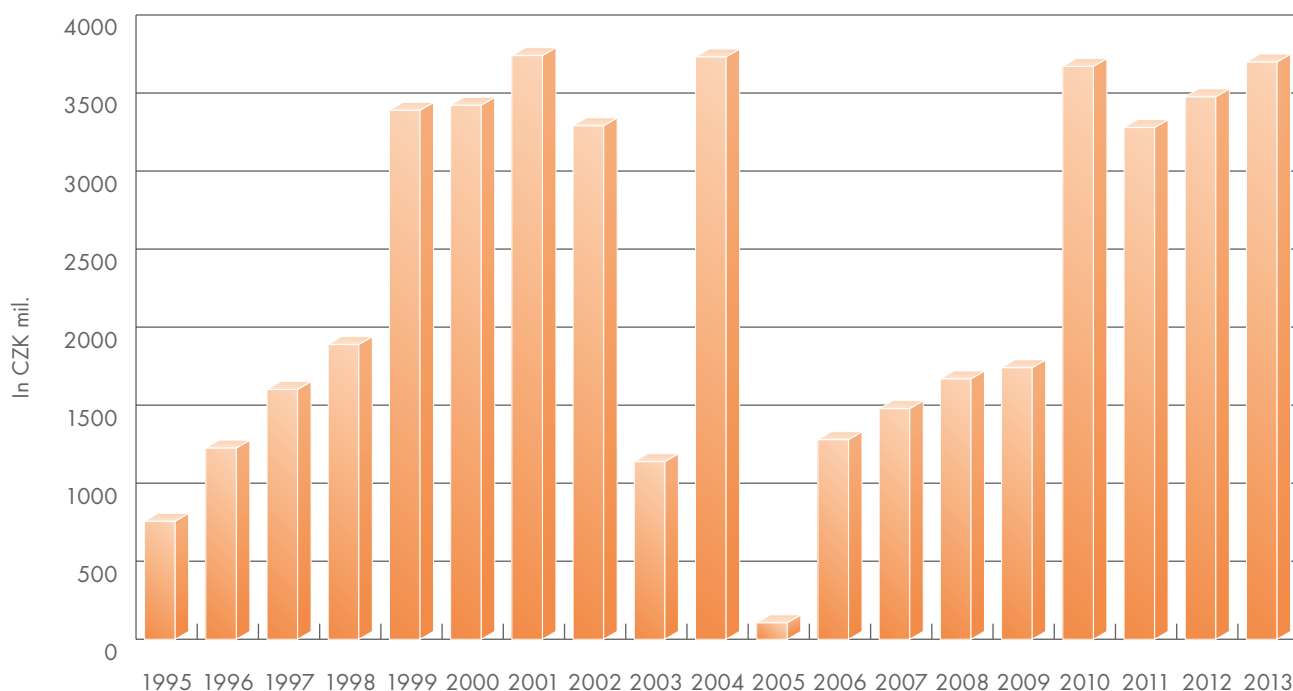
Table No 4 | **Contributions by the Insured Institutions to the Fund, by Year of Contribution Payment**

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
2012	3,526.62
2013	3,749.83
Total	45,539.11

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 the Insured Institutions, 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. 41 c (6) and (7). A bank's and cooperative credit union's contributions to the Fund amount 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 and cooperative credit union, 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.

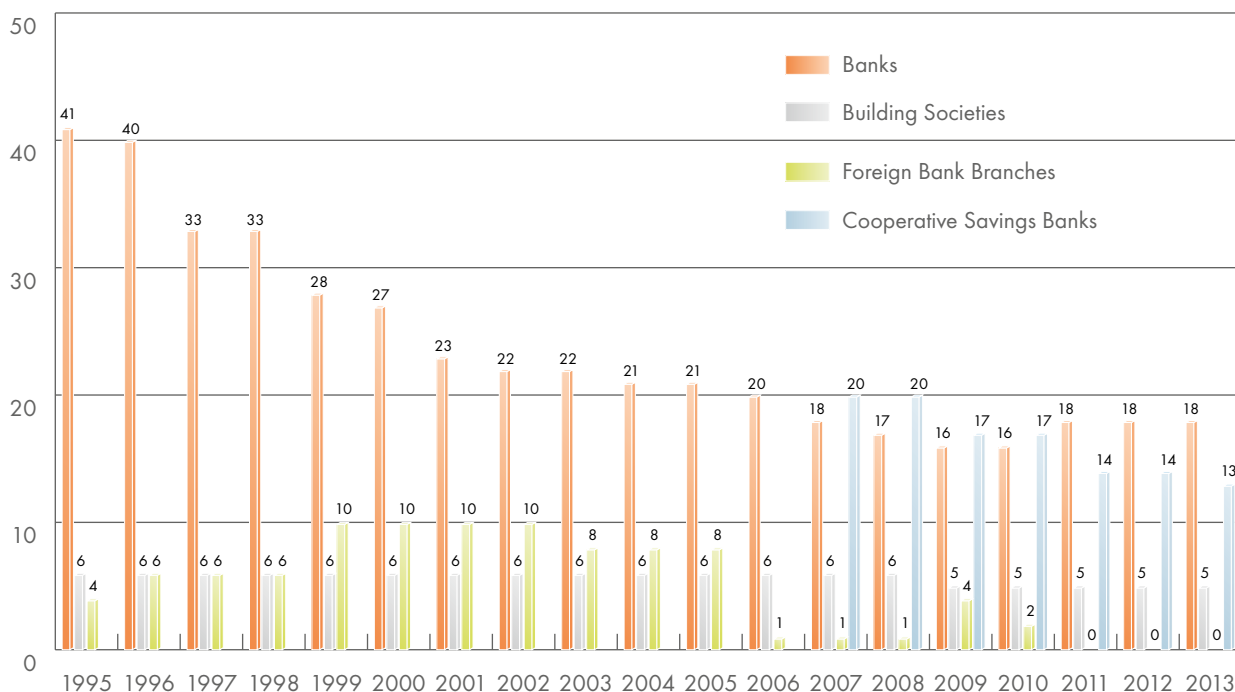
The contribution of a building society to the Fund amounts to 0.02% of the average volume of the insured receivables from deposits for

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.

The Insured Institution 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 harmonization of the insurance protection amounts in EU countries, all topping-up agreements were terminated in 2010, one by one. In 2013, no branch of a foreign bank paid contributions to the Fund.

Graph No 2 | Number of the Insured Institutions Contributing to the Fund



International Cooperation

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

In terms of discussions among European deposit insurance systems, 2013 was devoted primarily to preparations for new European regulation that should more significantly harmonize the operation of existing deposit insurance systems in the EU. This will include, in particular, the introduction of rules for collecting contributions from banks on the basis of risk, the obligation to stress-test the systems, and the obligation to cooperate in the disbursement of compensation for the branches of banks operating in other EU countries. The major theme of the annual conference held in Rome in September was the role of deposit insurance systems, investor protection systems, and the crisis resolution fund in the provision of protection and financial stability to consumers.

At the International Association of Deposit Insurers, practical seminars were held throughout the year concerning the pilot testing of deposit insurance systems in accordance with the Methodologies for the Application of the Core Principles for Effective Deposit Insurance Systems. Further seminars were devoted to sharing experience in the

disbursement of deposit compensation, and focused primarily on ways, processes, uses of new technologies, and the role of audit and risk managers in the process. A seminar in Moscow focused on the role of the deposit insurance system during liquidation and insolvency proceedings, in particular on the possibility of participating in the investigation of fraudulent conduct that contributed to the bankruptcy of a bank. A seminar in Bucharest was devoted to the management of deposit insurance systems and its processes, including planning and testing of provisions made to ensure continuity of its operations. The annual conference held in Buenos Aires in October was devoted to continuing reform of the financial safety net, reforms in deposit system insurance financing, and the preparation of a comprehensive bank resolution mechanism.

In the course of bilateral cooperation, representatives of the Slovak Deposit Protection Fund visited Prague. The main purpose of the visit was to assess mutual cooperation in the disbursement of compensation for deposits with the Slovak branch of the UNIBON cooperative credit union. The Fund also received representatives of the Korean Deposit Insurance Corporation, with the main subject of discussion being the role and position of the deposit insurance system in insolvency and bankruptcy proceedings, and also a representative of the Armenian Deposit Insurance Fund, where the main subject of discussion was general information about the operation of the deposit insurance system in the Czech Republic.

Investment Activities

The investment policy of the Deposit Insurance Fund is based on core principles arising from the role of the Deposit Insurance Fund as defined in the Act on Banks and on the safe investment methods arising therefrom. These principles primarily reflect the role of the Deposit Insurance Fund as a stabilizing element in the banking system, with specific requirements as to liquidity and the security of the assets allocated.

Through strategic (mid-term) and tactical (short-term) allocation of assets, the investment policy determines the manner of investment of financial reserves both by investment managers and the Deposit Insurance Fund itself. Strategic asset allocation defines, above all, the investment limits for individual asset category classes, credit exposure limits, maximum duration and the average time to maturity of the portfolio, and the manner in which credit risks are hedged. These parameters are adapted on an annual basis according to the current market situation during tactical Asset allocation.

The total volume of the Fund's financial reserves at the end of 2013 reached CZK 28,602 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

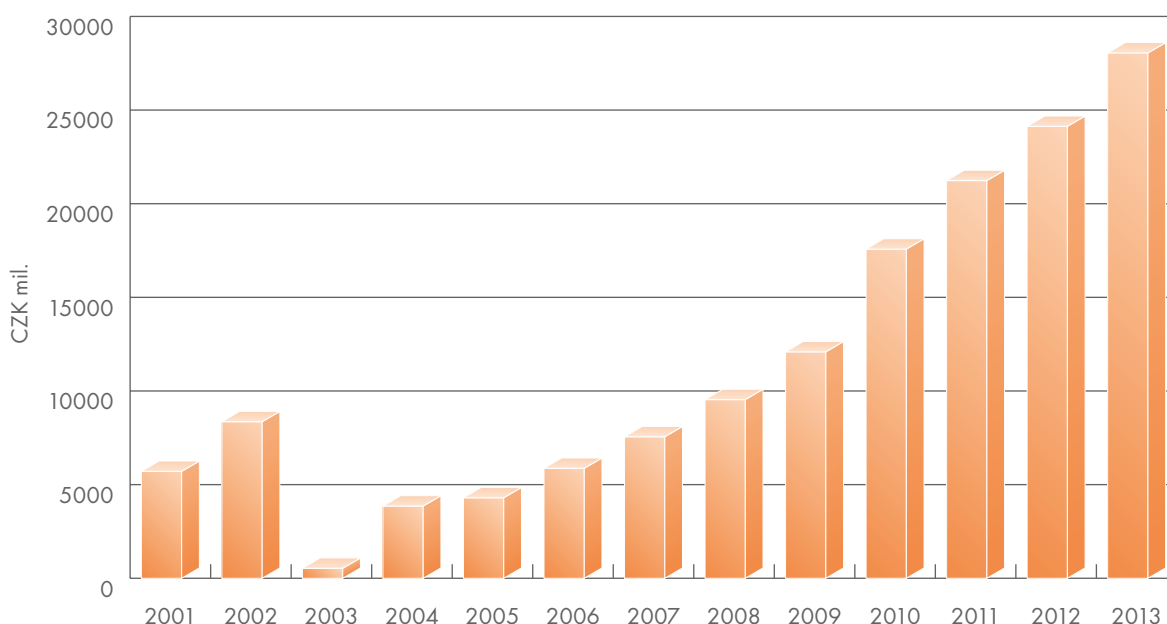
investment manager; and the short-term portfolio, managed directly by the Deposit Insurance Fund.

The financial reserves managed in the mark to market portfolio were invested into short-, medium-, and long-term domestic government bonds issued by the Czech Ministry of Finance. The duration of the mark to market portfolio is targeted between 2 and 3 years. As at the end of 2013, the mark to market portfolio's share of the total volume of the Deposit Insurance Fund's financial reserves amounted to 29%.

The hold to maturity portfolio was increased by CZK 300 million during the course of the year. This portfolio comprises primarily of medium-term and long-term fixed coupon bonds issued by the Czech Ministry of Finance and its duration is targeted between 5 and 6 years. As at the end of 2013, 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 and repo transactions with treasury bills issued by the Czech Ministry of Finance or the Czech National Bank. As at the end of 2013, the short-term portfolio's share of the total volume of the Deposit Insurance Fund's financial reserves amounted to 57%.

Graph No 3 | TREND IN THE VOLUME OF FINANCIAL RESERVES 2001-2013



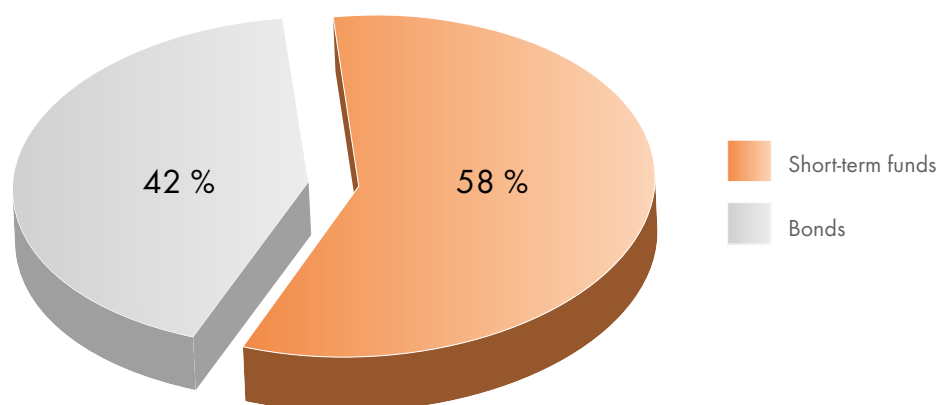
As at the end of 2013, the financial reserves of the Deposit Insurance Fund were comprised of 58% of short-term funds (buy/sell and repo transactions with treasury bills issued by the Czech

Ministry of Finance or the Czech National Bank) and 42% of domestic government bonds (treasury bills and bonds issued by the Czech Ministry of Finance).

Table No 5 | **STRUCTURE OF FINANCIAL RESERVES BY INSTRUMENT, AS AT 31 DEC. 2013**

Type of instrument	Market value in CZK mil.
I. Current accounts, term deposits, buy/sell and repo transactions, receivables*	16,512.49
II. Bonds:	12,089.93
Of which: treasury bills and Czech National Bank bills	100.00
Medium- and long-term government bonds	11,989.93
III. Total	28,602.42

* receivables from unpaid coupons

Graph No 4 | **STRUCTURE OF FINANCIAL RESERVES BY INSTRUMENT, AS AT 31 DEC. 2013**

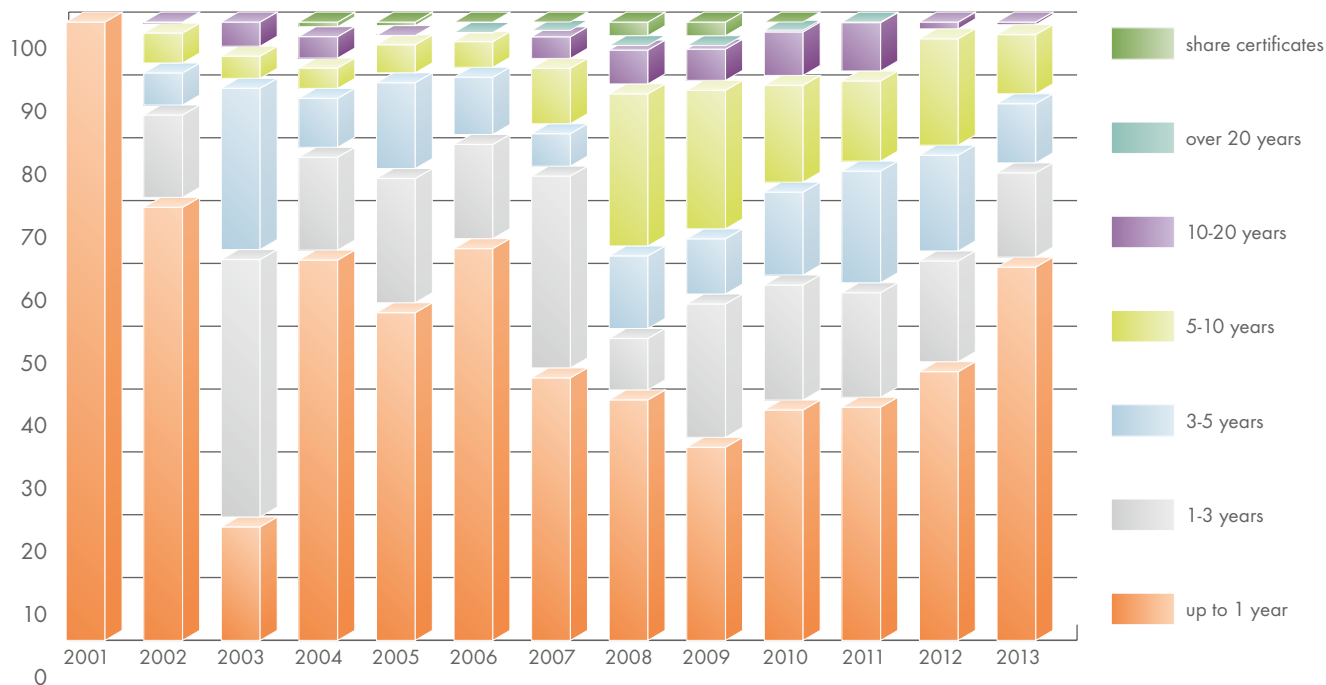
Debt instruments maturing within 1 year (61%) made up the largest share of the volume of the financial reserves, and the remaining part of the portfolio was divided, based on maturity, among instruments

maturing in 1 to 3 years (15%), 3 to 5 years (11%), 5 to 10 years (11%), and 10 to 20 years (2%).

Table No 6 | **STRUCTURE OF FINANCIAL RESERVES BY MATURITY, AS AT 31 DEC. 2013**

Instrument maturity	Market value in CZK mil.
I. Up to 1 year	17,487.03
II. 1 year to 3 years	4,185.84
III. 3 to 5 years	3,126.65
IV. 5 to 10 years	3,131.93
V. 10 to 20 years	670.97
VI. Total	28,602.42

Graph No 5 | Development of the Portfolio of Financial Reserves by Maturity



The overall appreciation of the financial reserves of the Deposit Insurance Fund in 2013 amounted to 0.74% p. a., which means approximately CZK 199 mil.

IV. MAIN CASH FLOWS OF THE DEPOSIT INSURANCE FUND – HISTORY

Table No 7 | Summary Overview of the Income and Expenses of the Fund, 1995–2013 (in CZK mil.)

I.	Income	59,470.60
	Contributions from banks 1995-2013	45,539.27
	Income from judicial composition and bankruptcy	5,068.00
	Returns of disbursed compensation	129.91
	Returned non-disbursed compensation advances	60.08
	Interest received and other revenues	5,673.34
	- investment income	5,651.49
	- other financial revenue	21.85
	Loans received	3,000.00
II.	Expenditure	30,860.23
	Disbursement of deposit compensation 1995–2013	27,487.30
	Operating expenses	251.77
	Interest paid	121.16
	Loan repayments	3,000.00
III.	Difference between income and expenditure	28,610.37

No events took place after the balance sheet date, which could have material impact on the financial statements as at 31 December 2013.

The Annual Report was approved by the Board of Directors of the Fund and signed on the basis of its authorization:

10. 6. 2014



Josef Tauber

Chairman of the Board of Directors



Petr Vojtíšek

Member of the Board of Directors

V. AUDITOR'S REPORT TO ANNUAL 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 2013 disclosed in the annual report on pages 20-34 and issued the opinion dated 10 June 2014 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 2013 is consistent with the financial statements which are included in this annual report. 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 2013 is consistent, in all material respects, with the financial statements.

The maintenance and integrity of the Fund's website is the responsibility of its Statutory Body. The work we carried out does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the annual report since it was initially presented on the website.

10 June 2014

PricewaterhouseCoopers Audit, s.r.o.

represented by

Zuzana Tairova
Zuzana Tairova
Director

Eva Loulová
Eva Loulová
Statutory Auditor, Licence No. 1981

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

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, 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 2013



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 2013, the income statement for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("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 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.

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 about 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 2013 and its financial performance for the year then ended in accordance with Czech accounting legislation.

10 June 2014

PricewaterhouseCoopers Audit, s.r.o.

represented by

Zuzana Tairova
Zuzana Tairova
Director

Eva Loulová
Eva Loulová
Statutory Auditor, Licence No. 1981

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FOND POJIŠTĚNÍ VKLADŮ	Registered seat:	Růžová 15; Prague 1
	Identification number:	49710362
	Financial statement date:	31 December 2013
	Date of the compilation of the financial statement	10. 6. 2014

Balance sheet as at 31 December 2013
(CZK '000)

ASSETS	as at 1 January 2013	as at 31 December 2013
A. Total fixed assets	3,371,947	3,957,655
I. Intangible fixed assets – software	2,553	2,553
II. Tangible fixed assets	2,083	1,748
Works of art, objects and collections	46	46
Buildings	297	297
Machinery and equipment	1,740	1,405
III. Long-term investments – bonds, debentures and similar securities held to maturity	3,370,228	3,956,883
IV. Total accumulated depreciation of fixed assets	(2,917)	(3,529)
Accumulated depreciation of software	(1,880)	(2,553)
Accumulated depreciation of buildings	(29)	(34)
Accumulated depreciation of machinery and equipment	(1,008)	(942)
B. Total current assets	40,827,828	44,070,419
II. Total receivables	24,907,208	35,781,143
Operating advances paid	156	193
Other receivables	24,907,052	35,780,950
III. Total short-term financial assets	15,920,547	8,289,032
Cash	13	14
Stamps and vouchers	32	33
Bank accounts	324,349	155,946
Bonds, debentures and similar securities held for trading	15,596,153	8,133,039
IV. Total other assets	73	244
Prepaid expenses	73	244
Accrued revenues	0	0
Total assets	44,199,775	48,028,074

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

(CZK '000)

LIABILITIES	As at 1 January 2013	As at 31 December 2013
A. Total equity	44,139,070	48,007,042
I. Equity – funds	41,490,594	45,192,790
II. Total profit/loss	2,648,476	2,814,252
Profit/loss for the period	1,006,796	165,776
Retained earnings	1,641,680	2,648,476
B. Total liabilities	60,705	21,032
III. Total short-term liabilities	60,705	21,032
Payables to suppliers	505	974
Other payables to employees	901	919
Payables to social security and health insurance	274	391
Other direct tax liabilities	184	262
Payables from fixed term operations	18,693	0
Other payables	22,034	12,595
Estimated payables	18,114	5,891
Total equity and liabilities	44,199,775	48,028,074

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

Profit and Loss For the year ending 31 December 2013
(CZK '000)

	Activity		
	Main	Economic	Total
A. Expenses			
I. Total consumed purchases	437	0	437
1. Material consumption	437	0	437
II. Total services	13,559	0	13,559
5. Repairs and maintenance	35	0	35
6. Travel expenses	875	0	875
7. Representation expenses	142	0	142
8. Other services	12,507	0	12,507
III. Total personnel expenses	8,538	0	8,538
9. Wages and salaries	6,340	0	6,340
10. Obligatory social security	1,983	0	1,983
12. Obligatory social expenses	163	0	163
13. Other social expenses	52	0	52
IV. Total taxes and fees	574	0	574
14. Road tax	1	0	1
16. Other taxes and fees	573	0	573
V. Total other expenses	138,632	0	138,632
21. Foreign exchange losses	10	0	10
24. Other expenses	138,622	0	138,622
VI. Depreciation and assets sold	8,088,895	0	8,088,895
25. Depreciation of intangible and tangible fixed assets	947	0	947
27. Securities and investments sold	8,087,948	0	8,087,948
Total expenses	8,250,635	0	8,250,635

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

(CZK '000)

	Activity		
	Main	Economic	Total
B. Revenues			
IV. Total other revenues	49,374	0	49,374
13. Contractual penalties and default interest	2	0	2
15. Interest	2,904	0	2,904
16. Foreign exchange gains	3	0	3
18. Sundry other revenues	46,465	0	46,465
V. Revenues from sale of assets	8,367,037	0	8,367,037
20. Revenues from sale of securities and investments	7,974,882	0	7,974,882
22. Revenues from short-term financial assets	252,697	0	252,697
24. Revenues from long-term financial assets	139,458	0	139,458
Total revenues	8,416,411	0	8,416,411
C. Profit/loss before tax	165,776	0	165,776
D. Profit/loss after tax	165,776	0	165,776

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

1. | General information

The Deposit Insurance Fund (hereinafter referred to as "the Fund") 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. The Fund does not run any other activity. Identification number of the Fund is 497 10 362. 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 2013 were as follows:

Name	Position
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

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

2. | Accounting policies

2.1. | Basic principles of preparing financial statement

The financial statement is compiled in accordance with the Act on accounting, the Decree 504/2002 Coll. and the Czech accounting standards for non-profit organizations. The financial statement is 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 assets

Purchased fixed tangible assets are stated at acquisition cost, which include the price for which the assets were acquired and any expenses incurred in connection with the acquisition.

Fixed tangible assets are depreciated using the straight line method, based on their estimated useful life and tax rates. Repair and maintenance expenses on fixed tangible assets are booked directly to expenses.

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

Fixed intangible assets are amortized 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 and interests

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

Securities held for trading:

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

Securities and interests 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.

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

Profit and loss arising from changes in the fair value of securities held for trading is recognized in the profit and loss account 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, which the Fund intends and is able to hold 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 recognized at the purchase price including transaction costs and further valuated at amortized 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 'Other receivables', including any 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 first 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.

Derivatives with a positive fair value are reported as receivables from fixed term operations. Derivatives whose fair value is negative are reported as payables from fixed term operations.

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

2.5. | Foreign currency conversions

Transactions executed 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 at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange rate gains and losses from the recalculation of receivables and payables are recognized in the profit and loss account.

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

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

2.6. | Contributions received from banks

Contributions received from banks are charged directly to the fund account included in the Fund's equity. The contributions are recognized according to their real receipt in the 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 constitutes the calculation base for the contribution amount.

2.7. | Allowances for receivables

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

2.8. | Payables to bank clients and receivables from banks 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 disbursement, recognizes 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. A receivable from the bank which cannot meet its commitments to their clients is posted in the same amount, 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 reflecting reality occurred, consequences of these events are described in the notes to financial statements, but are not posted to the financial statement.

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2013

3. Additional information to the balance sheet and profit and loss statement

3.1. Other receivables

(CZK'000)	31 December 2013	31 December 2012
Receivables from compensations paid out	19,409,418	19,481,774
Receivables from repo operations	16,337,625	5,394,138
Receivables from duplicate payments	14,902	15,142
Receivables from accrued coupons	18,924	15,876
Receivables other	0	122
Receivables from unpaid contributions	81	0
Other receivables – total	35,780,950	24,907,052

Receivables from compensations paid out contain receivables due from banks and cooperative credit unions which did not meet their commitments to their clients as at 31 December 2013 amounted to CZK 19,409,418,000 (as at 31 December 2012: CZK 19,481,774,000).

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 amortized costs:

(CZK'000)	31 December 2013	31 December 2012
Debt securities held to maturity	3,956,883	3,370,228

Securities held for trading as at 31 December 2013 and 31 December 2012 consisted of Czech government bonds in the amount of 100.0% respectively. Market value of debt securities amounted to CZK 4,397,879,000 as at 31 December 2013.

3.3. Securities held for trading

Fair value of securities held for trading:

(CZK'000)	31 December 2013	31 December 2012
Debt securities held for trading	8,133,039	15,596,153

Securities held for trading as at 31 December 2013 and 31 December 2012 consisted of Czech government bonds in the amount of 100.0% respectively.

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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 2013	31 December 2012
Opening balance	41,490,594	37,963,750
Contributions received (note 3.6)	3,749,817	3,526,624
New receivables from banks in insolvency or liquidation	20,893	1,806,577
Written-off receivables and payables from compensation disbursements	(47,702)	0
Compensation disbursement	(20,893)	(1,806,577)
Additional payments and refunds from settlement, other receivables from banks	81	220
Closing balance	45,192,790	41,490,594

On 11 March 2013, the Fund started to pay compensation to clients of Úvěrní družstvo PDW. Out of the total expected compensations in the amount of CZK 20.9 million, recorded as New receivables from insolvent banks, the Fund managed to pay out CZK 15.1 million, i.e. 72.2% by 31 December 2013.

Of the total expected volume of compensation, amounting to CZK 20.9 million, compensation of CZK 2.5 million is recorded on a conditional basis only, as litigation is currently under way concerning the recognition of a receivable from a deposit with Úvěrní družstvo PDW.

3.5. | Payables

Payables from compensation disbursements as at 31 December 2013 amounted to CZK 12,586,000 (31 December 2012: CZK 22,033,000).

Payables from social security and health insurance as at 31 December 2013 amounted to CZK 391,000 (31 December 2012: 274,000), of which CZK 216,000 (31 December 2012: CZK 138,000) are social security payables and CZK 175,000 (31 December 2012: CZK 136,000) health insurance payables. None of these payables were overdue.

Tax liabilities as at 31 December 2013 amounted to CZK 262,000 (31 December 2012: CZK 184,000). None of these payables were overdue.

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3.6. | Bank contribution

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

(CZK'000)	2013	2012
Contributions received from banks	3,749,817	3,526,624

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

(CZK'000)	31 December 2013	31 December 2012
Revenues:		
Revenues from the sale of securities	7,974,882	5,608,902
Revenues from short-term financial assets	252,697	404,451
Revenues from long-term financial assets	139,458	130,964
Other revenues (see note 3.8.)	49,374	429,626
Total	8,416,411	6,573,943
Expenses:		
Securities sold	(8,087,948)	(5,490,080)
Depreciation of fixed intangible and tangible assets	(947)	(1,118)
Purchases consumed	(437)	(255)
Services	(13,559)	(17,126)
Personnel costs	(8,538)	(7,235)
Taxes and fees	(574)	(49)
Other expenses (see note 3.8.)	(138,632)	(51,284)
Total	(8,250,635)	(5,567,147)

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3.8. | Other revenues and other expenses

(CZK'000)	31 December 2013	31 December 2012
Revenues:		
Interest	2,904	12,840
Exchange rate gains	3	1
Other revenues – exchange rate revenues from securities transactions and change in the fair value of derivatives held for trading	39,244	12,021
Other revenues – change in fair value of securities for trading	3,759	404,536
Other	3,462	223
Contractual penalties, default interest and fines	2	5
Other revenues in total	49,374	429,626
Expenses:		
Exchange rate losses	(10)	(34)
Other expenses – exchange rate losses from securities transactions and change in the fair value of derivatives held for trading	(23,239)	(35,078)
Other expenses – change in fair value of securities for trading	(113,280)	(14,649)
Other	(2,103)	(1,523)
Other expenses in total	(138,632)	(51,284)

Of the total interest income of CZK 2,904,000 (31 December 2012: CZK 12,840,000), revenues from buy-sell operations amounted to CZK 2,554,000 (31 December 2012: CZK 11,789,000).

Profits from 2012 amounting to CZK 1,006,796,000 were transferred to retained earnings from previous years. Profits from 2013, amounting to CZK 165,776,000 are proposed for transfer to retained earnings from previous years.

The average number of the Fund's employees is six, including one manager. Total wage expenses in 2013 amounted to CZK 6,340,000 (2012: CZK 5,412,000).

The Fund did not provide any remuneration, advances or loans to members of the Board of Directors in 2013 or 2012. In 2013 and 2012 the Fund did not contribute to the Executive Director for his life insurance and did not provide him with any compensation in kind.

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3.9. Litigations

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

Suit filed by TALIAELLA HOLDINGS LIMITED (previous to Conroe Consulting Services Limited)

On 18 Dec. 2010, an action was filed against the Fund by Conroe Consulting Services Limited, a corporation with its registered seat at 46/2, South Street, Valleta VLT 1101, Malta, seeking the payment of CZK 1,561,731,947 with accessories. The action was filed with the District Court for Prague 1. The claimant is seeking the granting of a claim consisting of damages in the above-mentioned amount which allegedly arose due to the defendant, i.e., the Fund, failing to pay out, in line with Act No. 443/2006 Coll., in the wording effective up to 2 March 2007 (Act on Compensations) compensation for insured deposits to the clients of Kreditní banka Plzeň, a.s. within the statutory period. At the time, the Fund proceeded in line with the Act on Banks and did not pay out 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 above-mentioned Act on Compensation was subsequently struck down by a ruling of the Constitutional Court of the Czech Republic dated 15 February 2007, effective from 2 March 2007. On 2 May 2012, the District Court for Prague 1 rendered judgment ref. no. 18 C 364/2010-80, stating that the application for the payment of CZK 1,561,731,947 plus accessories is denied and the claimant is obliged to compensate the defendant for the costs of the proceedings. The claimant appealed the judgment and subsequently supplemented its appeal. The original claimant, Conroe Consulting Services Limited, was replaced by TALIAELLA HOLDINGS LIMITED on the basis of an agreement on the assignment of a receivable. At a hearing held on 27 January 2014, the appeal court denied the claimant's appeal against the first-instance judgment, and awarded costs to the Deposit Insurance Fund. The written version of the judgment was delivered on 25 April 2014.

The Fund's opinion is supported by the fact that in several litigations for damages, where the claimant was a client who had made a deposit with Union banka a.s., and in one case also a client who had made a deposit with Kreditní banka Plzeň, a.s., first instance courts in their rulings confirmed the validity of the disbursement term extension. The courts accepted as sufficiently proven that the Czech National Bank extended the compensation disbursement term according to Act No. 21/1992 Coll., the Act on Banks, by an additional three months. In the court's opinion, the Fund acted fully in accordance with the law and no basic prerequisite of its liability for damages could be found. Furthermore, the claim is statute-barred according to the court. Once the written version of the judgment of the appeal court is delivered, the judgment denying the application in full will take legal effect. We cannot, however, rule out that the claimant may file an extraordinary appeal to the Supreme Court.

Suit filed by ASSETWISE LIMITED

On 30 August 2011, an application was filed with the Municipal Court in Prague against the Fund by ASSETWISE LIMITED, ID No.: HE 284286, a corporation with its registered seat in HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, post code 6042 Larnaca, Republic of Cyprus, seeking the payment of CZK 1,406,963,367 plus accessories. The claim is based on the provisions of part two of Art. III (4) of Act No. 443/2006 Coll. (Act on Compensations), with the claimant seeking financial compensation. Subsequently, the High Court in Prague decided in terms of the material jurisdiction that district courts have jurisdiction to hear and decide the matter at first instance. The proceedings were stayed by a resolution of the court of 9 December 2013 until the appeal proceedings in case VALSPRING HOLDINGS LIMITED x the Fund (see below) come to an end.

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 on Additional Compensations, and an assessment of the claimant's right to sue. Another assessment criterion is the impact of constitutional-law regulations on future legal relations once the above-mentioned act was struck down. The position of the Fund is supported by the fact stated above that in several litigations, first instance courts ruled that the disbursement term extension process was de iure free of any defects, i.e. that the Fund had never been in any delay regarding the disbursements. The rationale given

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by courts in other matters can lead to the opinion that the Act on Additional Compensations could never stand in the structure of existing legislation due to the obvious errors which it suffered, which is the basis of the opinion of the Fund that claims for performance cannot be presently made on the basis of an act that has been struck down. The Fund has numerous legal arguments to support the Fund's opinion and therefore potential success of the Fund in the matter.

Suit filed by VALSPRING HOLDINGS LIMITED

On 30 August 2011, an application was filed with the Municipal Court in Prague against the Fund by VALSPRING HOLDINGS LIMITED, ID No.: HE 235682, a corporation with its registered seat HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, post code 6042, Larnaca, Republic of Cyprus, seeking the payment of CZK 1,621,470,327 plus accessories. This claim is based on the provisions of part two of Art. III (1) of Act No. 443/2006 Coll. (Act on Compensations), with the claimant seeking additional financial compensation. The defendant has given its statement on the application. The claimant only submitted a statement with respect to the material jurisdiction of the court. Subsequently, the High Court in Prague decided in terms of the material jurisdiction that district courts have jurisdiction to hear and decide the matter at first instance. The written wording of the judgment has not been issued yet and the judgment has not yet come into legal force. After delivery of the judgment the claimant may appeal to the Municipal Court in Prague.

In its judgment of 29 May 2013, the District Court for Prague 1 denied the application in full and awarded costs to the Fund. The claimant appealed the judgment, and the defendant has given its statement with respect to the appeal. The appeal court hearing has been cancelled for the purpose of making a decision on a change in the person of the claimant.

In this dispute, the claimant tries to infer the duplicity of its claim from the point of view of the interpretation of legal regulations concerning both claims to the disbursement of additional compensation and constitutional-law regulations. Although the claim is phrased somewhat differently than in the previous case, which concerns the claimant ASSETWISE LIMITED, the same commentary as in the previous case can be used. In this case, too, the lawyers of the Fund have sufficient legal arguments to support the future success of the Fund in this litigation.

All of the three claimants mentioned above acquired their receivables on the basis of an agreement on the assignment of a receivable from the assignor Česká pojišťovna a.s., with its registered seat in Prague 1, Spálená 75/16, post code 113 04, ID No.: 452 72 956, which, together with its subsidiary, ALPHA BROKER a.s., paid out compensation to the clients of Kreditní banka Plzeň, a.s. – v likvidaci beyond the scope of the compensation disbursed by the Fund.

In concluding, we must state that a court's ruling in any matter cannot be predicted with precision.

3.10. | Possible liabilities

On 27 December 2013, the CNB declared that Metropolitní spořitelní družstvo was unable to meet its commitments to clients based on the legal and contractual conditions (Section 41d (1) Act No. 21/1992 Coll., on bank). On 27 January 2014 the Fund commenced payment of compensations to its depositors. Total expected compensations amount to CZK 12,018.2 million.

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3.11. | Subsequent events

No events took place after the balance date that would have a material impact on the financial statement as at 31 December 2013. The financial statement was approved by the Fund's Board of Directors and signed on the basis of its authorization.

10. 6. 2014



Josef Tauber

Chairman of the Board of Directors



Petr Vojtíšek

Member of the Board of Directors