



Deposit Insurance Fund

A close-up photograph of a dandelion seed head, showing the intricate structure of the seeds and their attachment to the stem. The image is partially obscured by a horizontal band containing the report title.

ANNUAL REPORT 2008



CONTENTS

I.	Introduction by the Chairman of the Board of Administration.....	4.
II.	Authorised representative.....	5.
III.	Activities of the Deposit Insurance Fund in 2008.....	6.
	Role of the Deposit Insurance Fund	
	Act on Banks	
	Disbursement of Compensation	
	Claims of the Deposit Insurance Fund from Banks	
	Contributions from Banks	
	Investment Activities	
	International Cooperation	
IV.	Fund's Main Cash Flow – History	21.
V.	Auditor's Report	22.
	Notes to 2008 Financial Statements	23.

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I INTRODUCTION BY THE PRESIDENT OF THE BOARD OF ADMINISTRATION

It is a paradox, or perhaps typical, that what should have been set in motion a long time ago, which everyone more or less knew or suspected, is in motion when it is too late and/or when the need to act begins to lag behind reality (which is the same thing). As if by magic, the insurance of deposits has become a current issue that everyone wants to (or must) not only discuss but, and this also hurts, decide on. Who wants to remember the Fund's legislative initiatives today that, apart from a period of disbursements and the co-participation of depositors in loss, resulted in a better legislative and social framework for deposit insurance and the Fund itself, in greater flexibility in acquiring resources, and more rationality when searching for an optimum level of resources and their management, etc.

Not just that. It is difficult today to show how important the membership of the international deposit insurer organisations such as IADI and EFDI has been for the general and specific knowledge and know-how of the Fund, for the creation of the knowledge and empirical basis for decision-making and the resulting decisions and practical steps. The frequent and sometimes highly intensive, open and transparent communication with colleagues literally from all over the world is paying off today in the theoretical and practical preparedness of the Fund's staff and its Board of Administration to respond to today's urgent needs and to focus in a broad international context.

There is more. It was much earlier when the Fund began to realise and discuss the need for a strong communication policy, which — it must be acknowledged — has been absent, basically for irrational reasons, until this day. Today we are working on raising the awareness of deposit insurance as an institution, particularly in the minds of the general public. It will be beneficial if this awareness is established in the minds of the professionals and politicians as well. Suddenly, in the face of reality, which suddenly stopped being virtual, nobody doubts the growing need to inform and educate the public in this respect. Not long ago this was still not the case. . .

When the IADI started to be built, its president at the time, J. P. Sabourin, stressed that our main task is to raise the profile of deposit insurers and their work, and send data to the relevant place in the institutional structure at national and international level. To provide them, as experts in the protection and disbursement of deposits, with a platform called a *financial safety net*, which each sovereign and

multinational group should create. I return to the paradox of the introduction; need is again lagging behind reality . . .

I cannot but take this opportunity to thank the entire staff of the Fund and my colleagues at the Board of Administration for their professional management of the current challenges and express my wish that they and myself will be able to continue in the same collegiate, creative and open spirit in our work in future years.



Josef Tauber
President of the Board of Administration

II. AUTHORISED REPRESENTATIVE

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

of Administration members is five years, and one new member is appointed every year. Board members do not receive remuneration. The Fund's Board of Administration is the authorised representative of the Fund, which manages the Fund's activities. The Board of Administration appoints an executive director, who is the head of the Fund's entire executive staff.

As at 8 April 2008 Klára Cetlová resigned as a member of the Board of Administration and as at 1 May 2008 the Minister appointed Michal Franěk as the new member of the Board of Administration.

Membership of the Board of Administration in 2008

Chairman:	Josef T a u b e r – Executive Director of the Czech Banking Association
Vice-chairman:	Petr V o j t í š e k – Deputy Director of the Czech National Bank Section
Members:	Daniel H e l e r – Deputy CEO and member of the Board of Administration of Česká spořitelna, a.s. Klára C e t l o v á – Department Director of the Ministry of Finance of the Czech Republic to 8 April 2008 Michal Franěk – Department Director of the Ministry of Finance of the Czech Republic from 1 May 2008 Jiří Š p e r l – Deputy Director and member of the Board of Administration of Modrá pyramida stavební spořitelny, a.s.
Executive Director:	Renáta K a d l e c o v á

III. ACTIVITIES OF THE DEPOSIT INSURANCE FUND IN 2008

Role of the Deposit Insurance Fund

The main line of the Fund's activities is settling the claims of entitled persons, from deposits under the terms and conditions set forth in the provision of Section 41a et seq. of Act No. 21/1992 Coll., on Banks, as amended, (hereinafter referred to as the "Act on Banks").

The Fund's further activities include the following:

1. administration and recovery of receivables from banks in accordance with Section 41h of the Act on Banks as part of pending bankruptcy, liquidation and composition proceedings;
2. securing and managing funds that are contributions from banks, revenues from invested funds, funds acquired in financial markets, proceeds from concluded bankruptcy proceedings, liquidation and composition proceedings, returnable granted aid and possible further income of the Fund;
3. deepening cooperation and integration within the framework of the existing or emerging structure of the European Union.

Act on Banks

The activities of the Fund are regulated in Section 41a through Section 41m of the Act on Banks and in joint and transitional provisions of amendments to this Act.

Pursuant to the Act on Banks, all banks and branch offices 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 Fund to the scope set forth in the Act on Banks. Cooperative savings banks have been obligated to participate in the deposit insurance system and contributed 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 is applicable 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, that 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 in the case of legal entities by their business name or name of the legal entity, its registered office, and in the case of domestic legal entities also by their identification number.

Insurance is not applicable to claims from 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 is not applicable 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 the bank and holders of deposits arising in conjunction with the legalisation of proceeds resulting from criminal activities, for which they were sentenced by a court in prosecution proceedings, are not entitled to compensation from the Fund's deposits.

Compensation for an insured claim from a deposit is granted to an entitled person only after the Fund has received notification in writing from the Czech National Bank that under legal and contractual terms and conditions a bank is not able to meet its commitments to entitled persons. Compensation is granted both to individuals and legal entities, and is disbursed in Czech currency.

On 15 December 2008 Act No. 433/2008 Coll. which amends Act No. 21/1992 on Banks, as amended, came into force. This Act increases the extent of insurance from the original 90% to 100% of the volume of all insured deposits of a depositor at one bank. Likewise, the maximum disbursed amount is increased from the original equivalent of EUR 25 000 to the new equivalent of EUR 50 000 per depositor.

The provision of the Act on Banks concerning the principle of a single licence came into force upon the Czech Republic's accession to the European Union. Hence the deposits of clients at branches of foreign banks are insured based on the relevant system of their home country, while the terms and conditions of insuring deposits of these countries are based on the European Community law. The branch of a foreign bank is obliged to provide depositors with information about the deposit insurance system, including the level and extent of cover provided by the deposit insurance system in which the bank and its branches participate.

Pursuant to the Act on Banks, branches of foreign banks operating in the Czech Republic may provide supplementary insurance for

claims from deposits based on an agreement with the Fund, providing that the home system of insurance is less favourable than the deposit insurance under the Act on Banks. HSBC Bank, plc – pobočka Praha has already used this option and arranged supplementary insurance with the Fund for deposits of legal entities, and branches of BRE Bank, S.A. and Citibank Europe plc. have arranged supplementary insurance for deposits of individuals. In 2008 the branch of Straumur-Burdaras Investment Bank hf concluded supplementary insurance with the Fund for both legal entities and individuals. In all of these cases it concerned supplementary insurance for deposits for the amount of EUR 25 000. In 2008, as a response to the global financial crisis, there was a substantial increase in the limit of insured deposits in many European countries, most frequently to EUR 50 000, and EUR 100 000. For this reason, in view of the maximum amount of compensation adopted by Act No. 433/2008 Coll., some supplementary insurance contracts ceased to exist. Upon mutual agreement the contract with the branch of BRE Bank, S.A. was terminated at the beginning of 2009 and the contract with the branch Citibank Europe plc will be terminated during 2009.

compensation that these persons returned voluntarily after being summoned to do so by the Fund, under a court decision, court settlement or out-of-court agreement, is CZK 132.97 million³, which is about 74% of the total compensation disbursed without authorisation. Hence the total compensation disbursed by the Fund is reduced by the above amount.

Disbursement of Compensation

Pursuant to Section 41a (5) of the Act on Banks, the Fund may withdraw funds from the Fund only for the compensation of claims from deposits to entitled persons and for repayment of the Fund's debts. During its existence, the Fund has disbursed compensation for deposits in sixteen cases granted in the form of 12 regular and four additional payments as compensation to depositors of twelve banks totalling CZK 25.476 billion as at 31 December 2008.

In 2008 with the expiry of the legal five-year limit, the Fund terminated the payment of compensation to depositors of Union banka, a.s. and Plzeňská banka, a.s. The total regular and additional compensation paid for 2008 amounted to CZK 2.13 million.

Just as in the previous years, in 2008 there was a fall in the total disbursed compensation of CZK 3.32 million as at 31 December 2008. In 2008 a further part of unjustifiably disbursed additional compensation to depositors of Moravia banka, a.s. of CZK 5.45 million was returned to the Fund's account. The reason why the Fund made this disbursement was that the Fund received incorrect data in 565 cases from the trustee (administrator) in bankruptcy. After discovering this fact, the Fund asked the clients who collected this compensation, without authorisation, to return it. The total sum of this returned deposit

Disbursement of Compensation from the Deposit Insurance Fund by 31 December 2008

(in CZK millions)

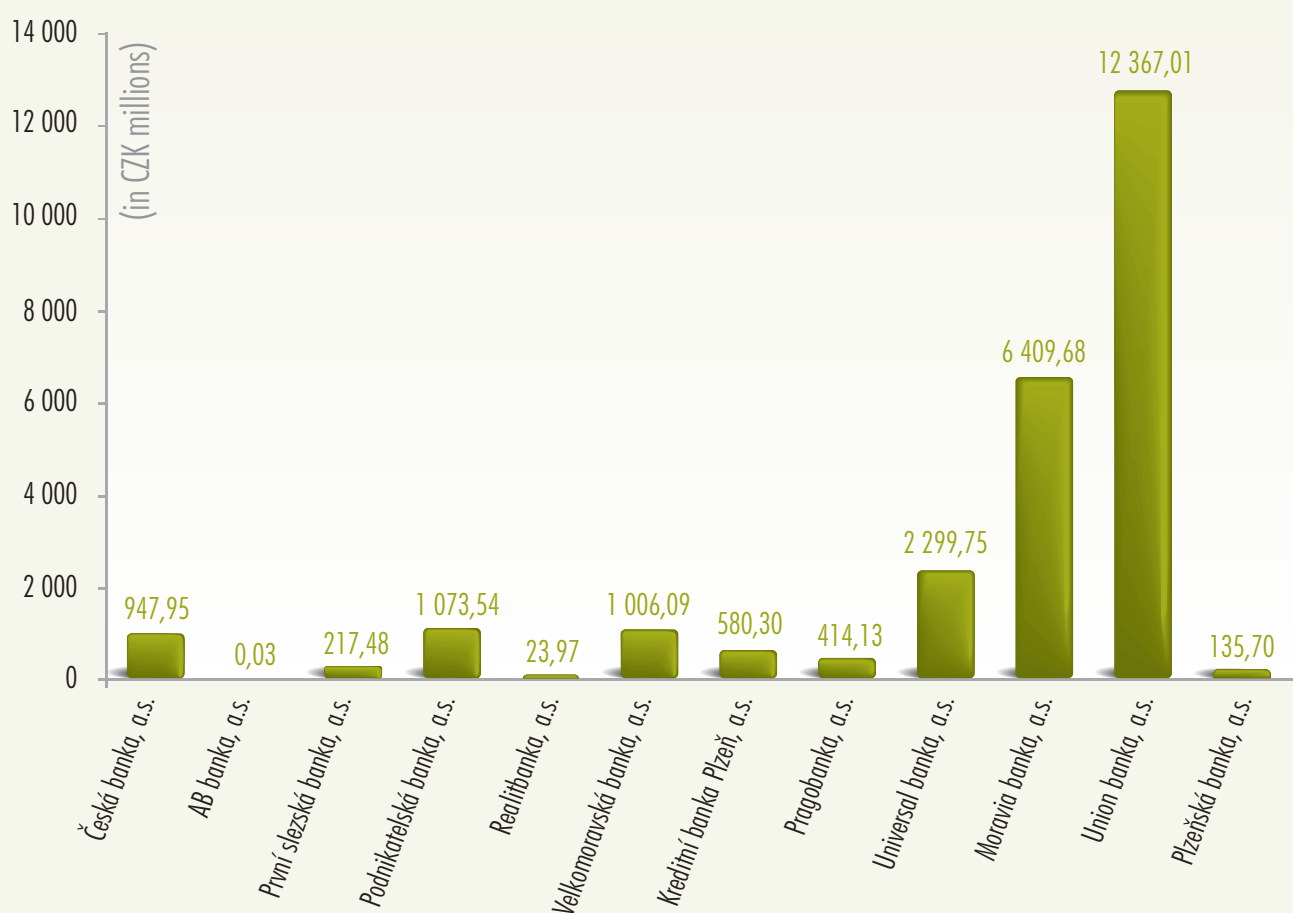
Bank	Date of commencement of Compensation disbursement	Disbursed compensation by 31 December 2008
Česká banka, a.s. ¹	11. 12. 1995	947,95
AB banka, a.s.	31. 1. 1996	0,03
První slezská banka, a.s.	15. 5. 1996	217,48
Podnikatelská banka, a.s.	17. 6. 1996	1 073,54
Realitbanka, a.s.	24. 7. 1996	23,97
Velkomoravská banka, a.s.	29. 7. 1996	1 006,09
Kreditní banka Plzeň, a.s.	23. 9. 1996	580,30
Pragobanka, a.s. ²	1. 12. 1998	414,13
Universal banka, a.s. ²	17. 5. 1999	2 299,75
Moravia banka, a.s. ²	11. 10. 1999	6 409,68
Union banka, a.s.	17. 5. 2003	12 367,01
Plzeňská banka, a.s.	7. 6. 2003	135,70
TOTAL		25 475.63

¹ disbursement of additional compensation commenced on 8 June 1998

² disbursement of additional compensation commenced on 4 January 2002

³ in 2004 compensation was returned of 18.56 million CZK debited to the disbursed deposit compensation, as of 2005 it is part of the Fund's income (see table on page 21. - IV. The Fund's main cash flow - history)

Disbursement of Compensation from the Deposit Insurance Fund by 31 December 2008



Fund receivables from banks

Pursuant to Section 41h (2) of the Act on Banks, starting with the disbursement commencement date the Fund will become the creditor of a bank which has failed to meet its commitments under the legal and contractual terms and conditions, to the scope of the rights of the bank's entitled persons to be paid by the Fund. Of the twelve paid banks, bankruptcy proceedings have been completed only in three cases. Of the amount of disbursed compensation for deposits which reached CZK 25.5 billion as at 31 December 2008, CZK 23.4 billion of receivables were recognised in bankruptcy proceedings. The receivables from additionally disbursed deposit compensation at Pragobanka, a.s., Universal banka, a.s. and Moravia banka, a.s. were not recognised because the Fund, when reporting them, did not meet 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 Fund disbursed this additional compensation, was adopted after the expiry of the relevant time limits. The recognition of these claims is the subject of litigation.

The following table shows a summary of receivables of the Fund from individual banks registered as at 31 December 2008 for bankruptcy proceedings of disbursed banks. From the total registered receivables of CZK 21 824.07 million, a preliminary schedule has been drawn up for five banks with the total advance payment for the Fund of CZK 2 822.27 million. Now, the Fund has CZK 19 001.80 million of receivables registered from banks.

Summary of Receivables Registered for Bankruptcy Proceedings

as at 31 December 2008

(in millions CZK)

Bank	Type of disbursements	Registration for Bankruptcy	Returned to the Fund	Receivables in Bankruptcy
Česká banka, a.s.	regular	518,56		
	additional	443,11		961,67
AB banka, a.s.	regular	0,23	0,01	0,22
První slezská banka, a.s.	regular	217,50	7,61	209,89
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	29,05	551,91
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	2 483,31	9 933,23
TOTAL		21 824,07	2 822,27	19 001,80

As for terminated bankruptcy proceedings by the end of 2008, 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.

Therefore, as at 31 December 2008 the Fund has no longer any receivables from these three banks. The summary of these satisfied receivables including received revenues and rate of return is shown in the following table.

Summary of Proceeds of Receivables from Banks at the End of Bankruptcy Proceedings

as at 31 December 2008

(In CZK millions)

Bank	Type of Disbursements	Total Receivables	Returned to the Fund	Return (%)
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 ⁴	52,41
TOTAL		1 552,58	803,52	51,75

⁴ besides this consideration the Fund in 2004 received bankruptcy assets from Plzeňská banka, a.s. to the amount of CZK 1.025 million as additional payment of the contribution for insured deposits for 2003

Contributions from Banks

In 2008 insured institutions, i.e. banks, building societies and cooperative savings banks, paid CZK 1 719.18 million of contributions into the Fund for the calculation base of 2007. A summary of contributions, which the Fund has received since its establishment in 1994, is shown in the following table.

Contributions from Banks to the Deposit Insurance Fund by Year

as at 31 December 2008

(in CZK millions)

Year of the Calculation Basis	Year of Contribution Disbursement	Amount
1994	1995	807,04
1995	1996	1 275,93
1996	1997	1 651,06
1997	1998	1 939,37
1998	1999	3 439,68
1999	2000	3 472,68
2000	2001	3 790,52
2001	2002	3 341,04
2002	2003	1 188,38
2003	2004	1 296,74
2004	2005*	2 642,05
2005	2006	1 329,59
2006	2007	1 528,63
2007	2008	1 719,18
TOTAL		29 421,89

* Including advances in December 2004

Contributions of Banks to the Deposit Insurance Fund



The contribution amount follows an amendment to the Act on Banks by Act No. 126/2002 Coll., Section 41c (6) and (7). The annual contribution of a bank to the Fund was reduced by the aforesaid amendment to 0.1% of the average volume of insured deposit claims in the previous year, including interest. The average amount of insured deposit claims is calculated by the bank based on the status of insured deposit claims as at the last day of each calendar month in the previous year, including interest accrued to the depositor as at that day. Since 2006 cooperative building societies have been paying a contribution of 0.1% of the average amount of insured deposit claims for the previous year, including interest to the Fund. The annual contribution of a building society to the Fund was reduced by the aforesaid amendment to 0.05% of the average volume of insured deposit claims for the previous year, including interest accrued to the participant in building society savings in the previous year. The average volume of insured deposit claims is calculated by the building society according to the quarterly status of insured deposit claims in the previous year without setting off prepaid

state grant-in-aid. Banks, building societies and cooperative savings banks are obliged to pay their contributions to the Fund for the previous calendar year no later than by 31 January of the current year. The contribution is paid in Czech crowns.

Of the additionally insured foreign bank branches only HSBC Bank, plc – pobočka Praha paid its contribution to the Fund for 2007 by 31.1.2008. The remaining three foreign bank branches, i.e. BRE Bank, S.A., Citibank Europe plc. and Straumur-Burdaras Investment Bank hf. will pay their contributions for 2008 by 31.1.2009.

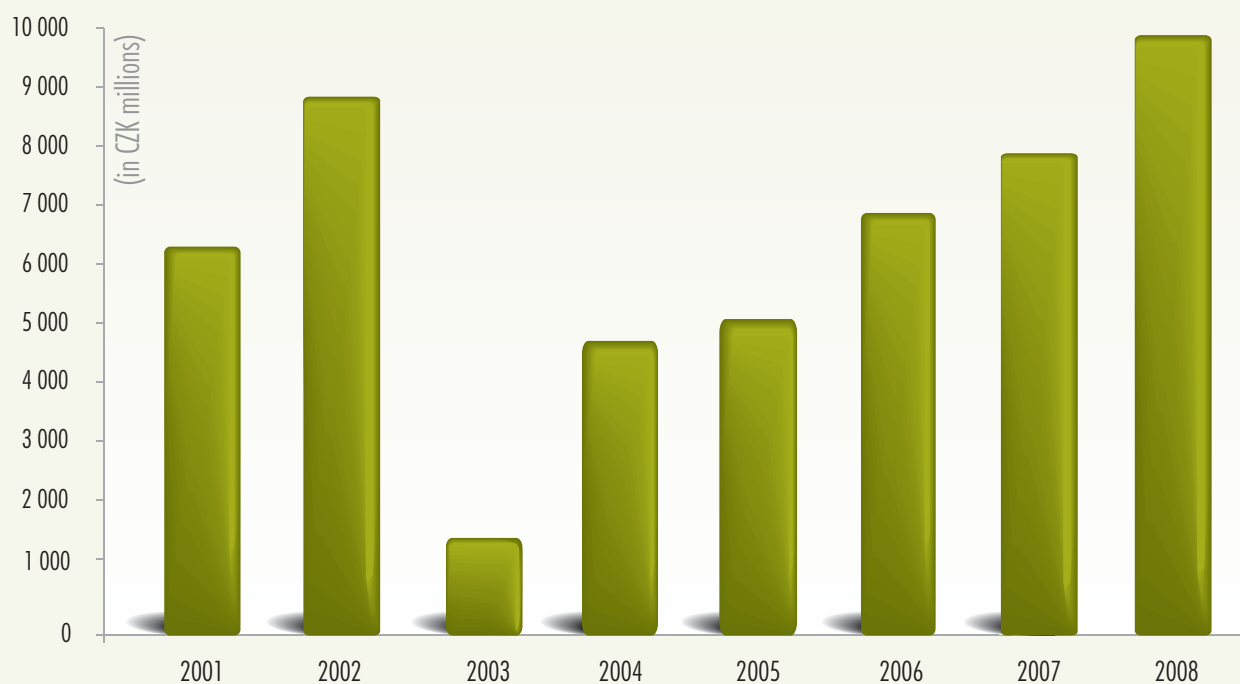
Number of Institutions Contributing to the Deposit Insurance Fund



Investment Activities

The volume of the Fund's reserves at the end of 2008 reached CZK 10.1 billion. Eighty percent of the Fund's financial reserves were administered through three investment managers and 20% directly by the Fund.

Trend in the Volume of the Fund's Financial Reserves 2001 – 2008

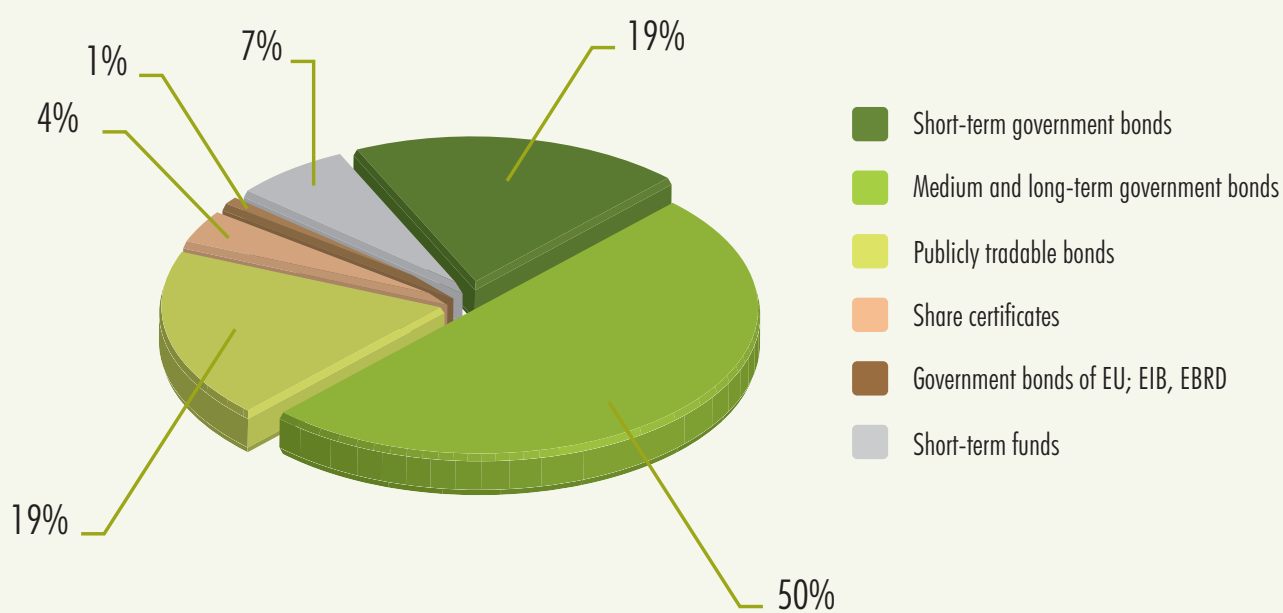


While managing its financial reserves in 2008 the Fund continued applying the investment policy it introduced in 2002. The financial reserves administered by the investment managers were invested in medium and long-term government bonds, bonds issued by banks, municipals and corporations in Czech crowns, and partly also in bonds issued in selected foreign currencies, while maintaining a minimum limit of S&P A- rating of the bond issuers. The financial reserves administered directly by the Fund were invested only in short-term state bonds or bonds issued by the Czech National Bank for the purpose of maintaining the Fund's liquidity.

In 2008 the Fund decided to create a linearly valued portfolio (a portfolio held to maturity). This portfolio consists only of domestic government bonds and its duration is targeted for an interval of 7-10 years. In the first year financial reserves of CZK 800 million were earmarked for its creation. The share of this part of the portfolio at the end of 2008 was 8% of the total volume of the portfolio.

The Fund's portfolio at the end of 2008 mostly consisted of medium and long-term government bonds (50%), short-term government bonds (19%) and publicly traded bonds of banks and corporations (19%).

Structure of the Portfolio as at 31 December 2008



Structure of the Portfolio by Instrument as at 31 December 2008

(in CZK millions)

	Type of instrument	Market value*
I.	Short-terms funds	676,85
	<i>Of which: Current accounts and term deposits</i>	<i>397,85</i>
	<i>Receivables from buy & sell transactions</i>	<i>268,21</i>
	<i>Receivables from coupons</i>	<i>14,32</i>
	<i>Receivables from fixed term transactions</i>	<i>-3,53</i>
II.	Bonds	9 031,41
	<i>Out of that: T-bills and CNB bills</i>	<i>1 929,81</i>
	<i>Medium and long-term government bonds</i>	<i>5 031,81</i>
	<i>Bank and corporate bonds</i>	<i>1 956,85</i>
	<i>IBRD, EIB and EU member country government bonds</i>	<i>112,94</i>
III.	Share certificates	378,90
TOTAL		10 087,16

The Fund's portfolio at the end of 2008 consisted especially of bonds and share certificates issued in CZK (96%). Of the bonds issued in foreign currencies the portfolio mostly contained bonds issued in EUR (2.3%) and PLN (1.4%). The duration of the portfolio at 31 December 2008 reached 2.88 years.

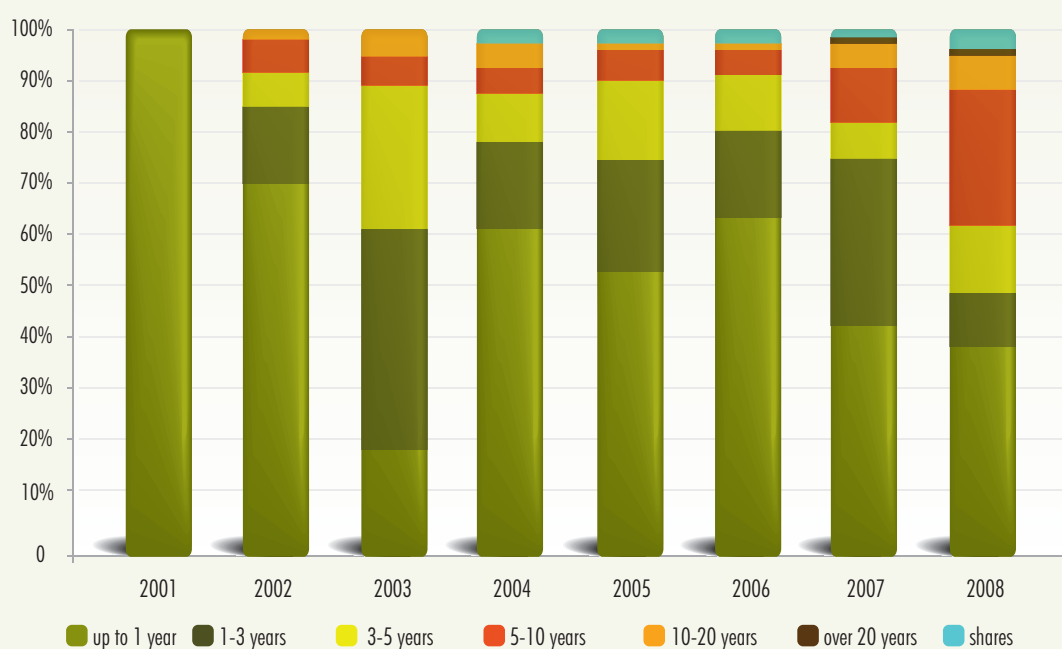
Structure of the Portfolio by Maturity as at 31 December 2008

(in CZK millions)

	Instrument maturity	Market value *
I.	Up to 1 year	4 027.70
II.	From 1 to 3 years	986.68
III.	From 3 to 5 years	1 326.33
IV.	From 5 to 10 years	2 596.05
V.	From 10 to 20 years	703.15
VI.	Over 20 years	71.35
VII.	Share certificates	378.90
TOTAL		10 087.16

The total value of Fund's financial reserves for 2008 increased by 2.89% p.a. The value of financial reserves administered by investment managers (market valued portfolio) increased by 2.53% p.a., while none of the investment managers exceeded the benchmark (Index GPRI3m), which rose in 2008 by 6.63% p.a. The gross revenue from investments totalled CZK 284.1 million.

Trend of the Structure of the Fund's Portfolio



International Cooperation

As in previous years, in 2008 the Fund continued to develop international cooperation with similar institutions, attended international conferences and actively cooperated in the preparation of new legislation dealing with the problems of deposit insurance of European Union countries. In particular, the active membership in the International Association of Deposit Insurers (IADI) and the European Forum of Deposit Insurers (EFDI) should be pointed out.

In 2008 the **European Forum of Deposit Insurers** completed, as part of the preparation documents for the revision of Directive 94/19/EC on Deposit Insurance Systems, the full analysis of deposit insurance system in the EU countries which it, together with a series of recommendations, submitted to the European Commission. The Fund contributed to this task as a member of one of the working groups, and for the purpose of extensive analyses also closely cooperated with the Joint Research Centre.

The year 2008 was strongly affected by the repercussions of the global financial crisis which also had a great impact on deposit insurance in many countries. The result of the impact of the crisis was the faster revision of Directive 94/19/EC. In December 2008 the European Commission and the Council of Europe adopted Directive 2009/14/EC on Deposit Insurance Systems which brings many radical changes to the deposit insurance systems of EU countries. The most significant changes are the increase in the insurance limit, removal of co-insurance of depositors and substantial reduction of the time limits for starting the disbursement of compensation.

In September 2008 in Dublin Fund representatives attended the annual EFDI Conference organised as the first joint EFDI and FDIC (Federal Deposit Insurance Corporation – USA) Conference dealing with the integration of financial markets and the deepening of cooperation of the EFDI with institutions of the FDIC and IADI.

The Fund also successfully hosted three important meetings of the **International Association of Deposit Insurers**. On 30 January 2008 the thirteenth meeting of the European Regional Committee was held in Prague. Then, on 9-11 June 2008, the 24th meeting of the IADI Executive Committee, including permanent and regional IADI commit-

tees, was held in Prague. Subsequently on 12 June the joint meeting of the IADI and EFDI executive committees was held in Prague.

The Fund's representatives attended the seminar on the topic of "Risk Analyses in the Deposit Insurance Systems" which was organised in cooperation with the IADI European and Euro-Asian Regional Committee on 27-28 May 2008. Various approaches to the risk analysis and its practical application to the determination of the financial reserves adequacy of the deposit insurance systems were discussed at the seminar. The Fund's representatives also attended the IADI conference and annual meeting organised on 29-30 October 2008 in Washington. The topic of the conference was the "Role of deposit insurance systems in supporting the financial stability and economic inclusion."

In 2008 the Fund concluded a general agreement with two partnership institutions: Slovak Deposit Protection Fund concerning disbursement of deposit compensation, submitting information, data and time limits, and division of costs in the event of insolvency of branches of Czech banks additionally insured in Slovakia, and with the Hungarian National Deposit Insurance Fund concerning disbursement of deposit compensation, submitting information, data and time limits, and disbursement of costs in the event of insolvency of the branches of Czech banks operating in Hungary.



IV. THE FUND'S MAIN CASH FLOW - HISTORY

Overview of the Total Income and Expenditure of the Fund in Years 1995 – 2008

(in CZK millions)

INCOME	
Contributions from banks	29 421,81
Income from judicial composition and bankruptcy	3 626,81
Return of disbursed compensation	114,69
Returned non-disbursed compensation advances	60,08
Interest received and similar revenues	2 760,05
– <i>interest from investment</i>	2 744,87
– <i>interest and other financial revenue</i>	15,18
New loans received	3 000,00
INCOME TOTAL	38 983,44

(in CZK millions)

EXPENDITURE	
Disbursement of deposit compensation	25 602,91
Operation expenses	152,55
Interest paid	121,16
Loan repayment	3 000,00
EXPENDITURE TOTAL	28 876,62

(in CZK millions)

DIFFERENCE BETWEEN INCOME AND EXPENDITURE	
	10 106,82

AUDITOR'S REPORT TO THE BOARD OF ADMINISTRATION OF FOND POJIŠTĚNÍ VKLADŮ

Financial statements

On the basis of our audit, on 8 June 2009 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of Fond pojištění vkladů, which comprise the balance sheet as of 31 December 2008, and the income statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements of Fond pojištění vkladů in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 and International Standards on Auditing and the relevant 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 the 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 controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of 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 present fairly in all material respects the assets, liabilities and the financial position of Fond pojištění vkladů as of 31 December 2008, and its expenses, revenues and financial performance for the year then ended in accordance with Czech accounting legislation."

Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of Company's management. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that all also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague 1 October 2009

KPMG Česká republika Audit, s.r.o.
Licence number 71



Vladimír Dvořáček
Partner



Pavel Závitkovský
Partner
Licence number 69

NOTES TO THE 2008 FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 DECEMBER 2008

(CZK thousands)

ASSETS	as at 1 January 2008	as at 31 December 2008
A. Total fixed assets	495	801 010
I. Intangible fixed assets – software	65	65
II. Tangible fixed assets	1 427	1 541
3. Buildings	0	297
4. Machinery and equipment	1 427	1 244
III. Long-term investments – bonds, debentures and similar securities held to maturity	0	800 431
IV. Total accumulated depreciation of fixed assets:	-997	-1 027
2. Accumulated depreciation of software	-25	-47
6. Accumulated depreciation of buildings	0	-5
7. Accumulated depreciation of machinery and equipment	-972	- 972
B. Total current assets	27 154 525	28 333 604
II. Total receivables	19 054 094	19 319 846
4. Advances paid	289	148
6. Receivables from employees	24	1
15. Receivables from fixed term operations	10 483	0
17. Other receivables	19 043 298	19 319 697
III. Total short-term financial assets	8 100 380	9 007 776
1. Cash	2	30
2. Stamps and vouchers	0	24
3. Bank accounts	496 648	397 846
4. Shares and similar securities held for trading	107 844	378 904
5. Bonds, debentures and similar securities held for trading	7 495 886	8 230 972
IV. Total other assets	51	5 982
1. Prepaid expenses	51	37
2. Accrued revenues	0	5 945
TOTAL ASSETS	27 155 020	29 134 614

(CZK thousands)

LIABILITIES	Status as at 1 January 2008	Status as at 31 December 2008
A. Total equity	27 086 240	29 128 851
I. Equity	26 389 947	28 163 574
II. Total profit/loss	696 293	965 277
1. Profit/loss for the period	0	268 984
2. Profit/loss under approval	102 344	0
3. Retained earnings	593 949	696 293
B. Total liabilities	68 780	5 763
III. Total short-term liabilities	68 780	5 763
1. Payables to suppliers	7 351	48
5. Payables to employees	0	135
7. Payables to social security and public health insurance	0	90
9. Other direct tax liabilities	0	26
15. Payables from fixed term operations	0	3 526
17. Other payables	58 398	0
22. Estimated accrued expenses	3 031	1 938
TOTAL LIABILITIES	27 155 020	29 134 614

PROFIT AND LOSS FOR YEAR ENDING 31 DECEMBER 2008

(CZK thousands)

Activities:	Main	Profit/loss	Total
A. Expenses			
I. Total consumed purchases	280		280
1. Material consumption	280		280
II. Total services	4 758		4 758
5. Repairs and maintenance	55		55
6. Travel expenses	396		396
7. Representation expenses	90		90
8. Other services	4 217		4 217
III. Total personnel expenses	4 117		4 117
9. Wages and salaries	2 950		2 950
10. Obligatory social security	1 049		1 049
12. Obligatory social expenses	57		57
13. Other social expenses	61		61
IV. Total taxes and fees	3		3
14. Road tax	3		3
V. Total other expenses	427 108		427 108
21. Foreign exchange losses	5		5
24. Other expenses	427 103		427 103
VI. Depreciation and assets sold	30 518 624		30 518 624
25. Depreciation of long-term intangible and tangible assets	213		213
27. Securities and investments sold	30 518 411		30 518 411
Total expenses	30 954 890		30 954 890
B. Revenues			
IV. Total other revenues	360 441		360 441
15. Interest revenues	44 918		44 918
16. Foreign exchange gains	3		3
18. Other revenues	315 520		315 520
V. Revenues from sale of assets	30 863 433		30 863 433
20. Revenues from sale of securities and investments	30 384 694		30 384 694
22. Revenues from short-term financial assets	460 992		460 992
24. Revenues from long-term financial assets	17 747		17 747
Total revenues	31 223 874		31 223 874
C. Profit/loss before tax	268 984		268 984
D. Profit/loss after tax	268 984		268 984

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 the law. 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 Administration as at 31 December 2008 were as follows:

	<u>Position</u>
Josef Tauber	president
Petr Vojtíšek	vice-chairman
Daniel Heler	member
Jiří Šperl	member
Klára Cetlová	member

Klára Cetlová asked to be removed from the Board of Administration on 8 April 2009. On 9 May 2009 Michal Franěk was appointed as a member of the Board of Administration.

2 ACCOUNTING POLICIES

(a) 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 organisations. 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.

(b) Fixed tangible assets

Purchased fixed tangible 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 1 year and an acquisition price not exceeding CZK 40 000 per item, are charged directly to expenses as they are put in use.

(c) Securities and investments

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 generating profit from short-term price fluctuations, of no more than a year.

Securities and investments are stated during their purchase at the acquisition cost including the 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 their fair value. The valuation of securities not traded on public markets is carried out based on an expert opinion or a qualified estimate made by the Fund management.

Profit and loss arising from changes in the fair value of securities held for trading is recognised 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 fixed or pre-determined revenues and fixed maturity which the Fund has the intent and ability 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 category.

Buy-sell operations:

Collateralised 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.

(d) Financial derivatives

The financial derivatives, including currency transactions, currency and interest swaps, are firstly entered in the balance sheet at the 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 recognised in the profit and loss account.

(e) 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 as at the balance sheet date. All exchange gains and losses from the receivables and payables translations are recognised in the profit and loss account.

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

(f) Contributions received from banks

Contributions received from banks are posted directly to the funds account included in the Fund's equity financing. These contributions are posted based on their actual acceptance at the start of the current year; they are not accrued because they concern a contribution for the current year. The previous calendar year is the base for calculating the amount of the contribution.

(g) Establishment of adjustments

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

(h) 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 internal accounting regulation of accepted contributions, disbursement of compensation and related cases are booked by the Fund, based on the decision of the Ministry of Finance of the Czech Republic to commence the disbursement, as a payable to the bank clients for which compensation is disbursed 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.

(i) Subsequent events

The impact of events that occurred between the balance sheet date and the date of the drawing up of the financial statements is entered in the accounting statements if these 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 drawing up the financial statements important events occurred, the consequences of these events are described in the notes to financial statements, but are not posted to the financial statements.

(j) Changes to accounting procedures

In 2008 there were no changes in the Fund's accounting policies.

3 ADDITIONAL INFORMATION TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

(a) Receivables due from banks which did not meet their commitments to their clients as at 31 December 2008 amounted to CZK 19 001 791 thousand (2007: CZK 19 001 791 thousand).

No adjustments were created to these receivables based on the provision of Ministry of Finance of the Czech Republic (see note 2(g)).

(b) Fair value of securities held for trading:

(CZK thousands)

	31 December 2008	1 January 2008
Bonds, debentures and similar securities held for trading	8 230 972	7 495 886
Shares and similar securities held for trading	378 904	107 844
TOTAL	8 609 876	7 603 730

(c) The Fund has no registered capital. The fund balance forms the equity financing. A summary of changes in the fund balance is shown below:

(CZK thousands)

	Receivables from insolvent banks	Contributions from banks received	Receivables and payables written off	Compensation disbursement	Surplus from settlement of compensation disbursement for insured deposits	Transfer of profit/loss	Total
Balance at 1 January 2007	9 645 691	13 592 177	- 2 678 672	271 643	28 529	0	20 859 368
Contributions and advances from banks received (see note 2(f))	0	1 329 588	0	0	0	0	1 528 574
Specification of compensation disbursement	0	0	0	- 2 261	0	0	- 2 261
Surplus from settlement of compensation disbursement	0	0	0	0	60 078	0	60 078
Transfer of profit/loss from previous years	0	0	0	0	0	3 947 142	3 947 142
Receivables written off	0	0	- 2 954	0	0	0	- 2 954
Balance at 31 December 2007	9 645 691	15 120 751	- 2 681 626	269 382	88 607	3 947 142	26 389 947
Contributions and advances from banks received (see note 2(f))	0	1 719 183	0	0	0	0	1 719 183
Payables written off	0	0	54 444	0	0	0	54 444
Balance at 31 December 2008	9 645 691	16 839 934	- 2 627 182	269 382	88 607	3 947 142	28 163 574

The contributions received from banks are contributions received since 2001 when there was a change to the accounting methodology.

(d) The Fund had no payables from compensation disbursement as at 31 December 2008 (2007: CZK 56 788 thousand).

Payables from social security and health insurance as at 31 December 2008 amounted to CZK 90 000 (2007: CZK 0) of which CZK 64 000 (2007: CZK 0) were payables from social security and CZK 26 000 (2007: CZK 0) were payables from health insurance. None of these payables were overdue.

Tax payables were CZK 26 000 (2007: CZK 0). None of these payables were overdue.

(e) Contributions are booked on the basis of their real acceptance and are not accrued (see note 2(f)). (CZK thousands)

	2008	2007
Contributions received from banks for the previous year	1 719 183	1 528 574
TOTAL	1 719 183	1 528 574

(f) Summary of income and expenditure, revenues and expenses of the current and previous accounting period: (CZK thousands)

REVENUES	2008	2007
Earnings from the sale of securities	30 384 694	52 510 999
Revenues from short-term financial assets	460 992	283 044
Revenues from long-term financial assets	17 747	0
Other revenues (see item 3 (g))	360 441	72 044
TOTAL	31 223 874	52 866 087

(CZK thousands)

EXPENSES	2008	2007
Securities sold	- 30 518 411	- 52 614 247
Depreciation of long-term intangible and tangible assets	- 213	- 214
Material consumption	- 280	- 410
Services	- 4 758	- 5 159
Personnel expenses	- 4 117	- 4 733
Taxes and fees	- 3	- 3
Other expenses (see item 3 (g))	- 427 108	- 138 977
TOTAL	- 30 954 890	- 52 763 743

(g) Other revenues and other expenses are structured as follows:

(CZK thousands)

REVENUES	2008	2007
Interest	44 918	33 424
Foreign exchange gains	3	7 800
Other revenues – change in the real value of tradable derivatives	155 495	27 887
Other revenues – change in the real value of tradable securities	159 883	2 250
Other	142	683
TOTAL OTHER REVENUES	360 441	72 044

(CZK thousands)

EXPENSES	2008	2007
Foreign exchange losses	- 5	- 6 949
Other expenses – change in the real value of tradable derivatives	- 170 983	- 29 596
Other expenses – change in the real value of tradable securities	- 251 049	- 97 142
Other	- 5 071	- 5 290
TOTAL OTHER EXPENSES	- 427 108	- 138 977

Revenues from buy-sell operations account for CZK 27 670 thousand (2007: CZK 23 626 thousand) of the total of CZK 44 918 thousand (2007: CZK 33 424 thousand) of interest revenues.

- (h) Profit for 2007 of CZK 102 344 thousand was transferred to Retained Earnings from Previous Years. Profit for 2008 of CZK 268 984 thousand is proposed for transfer to the Retained Earnings from Previous Years.
- (i) The average number of Fund employees is five out of which one is a managing employee. Total salaries expenses in 2008 amounted to CZK 4 117 thousand (2007: CZK 4 733 thousand).
- (j) Neither in 2008 nor in 2007 were the members of the Board of Administration provided with any remuneration, advances or loans. In 2008 and 2007 the Fund did not contribute to the life insurance of the executive director and did not provide him with any non-monetary payment.
- (k) No events took place after the balance sheet date which could have had a significant impact on the financial statements as at 31 December 2008.

The financial statements were approved and authorised by the Fund's Board of Administration.

8 June 2009



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