

ANNUAL REPORT 2012



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I. INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



I am pleased that looking back to 2012, I can say that it was a stable year for the Deposit Insurance Fund (hereinafter referred to as “the Fund” or “the Deposit Insurance Fund”), in which its organisational, technological, and financial position was reinforced. It also demonstrated the Fund’s ability to act as a stabilising element on the

financial market. This stabilising function, including communication with the public, is yet more important given that unsettling news continues to come from around the world. It is no wonder that this kind of news disturbs bank clients and the Fund is one of the few authorities that is willing to speak on it openly, regularly, without emotions, and professionally.

Naturally, the exceptionally good financial results of banks in 2012 helped calm the unrest. Again, it was proven that the Czech banking system is stable and financially sound, not only nationally, but also in European terms. All this in an environment where the Czech National Bank reduced interest rates in 2012 to their all-time lows, approximating zero, in an attempt to stimulate business and financial activities. This situation did not mean that the Fund had time to rest; on the contrary, it formed an opportunity for some hard work. Many tests were carried out of the preparedness of banks to comply with their technical obligations with respect to the DIF. Given that this ability is key in complying with statutory requirements, I am pleased to note that all of those tests were successful. The Fund carried out its stabilisation function through active and targeted communication and had no problems performing its function in the disbursement of compensation to the clients of the UNIBON cooperative.

In terms of the Fund’s preparedness for possible future disbursement of deposit compensation, the adoption of a bond program was key, as it will ensure additional resources for the disbursement of insured

deposits, should the need arise. In order to increase operative preparedness, a tender was commenced for selecting the institutions with which long-term cooperation will be established should the need arise pay out insured deposits.

Less positive news came from abroad, as has unfortunately been usual in recent years. I cannot fail to mention the recent thoughts – very unfortunate from the point of view of the Fund and the entire European deposit insurance system – about the violation of deposit insurance with Cypriot banks, which form a part of the Union financial market. Very disputable is the continued effort of the EU to shorten the disbursement period to 7 days. In our opinion and sober estimate of our technical possibilities, this target is achievable, but is of an insignificant benefit consisting of only a 13-day reduction of the present period. But it would involve systemic changes and further investments both of the Fund and banks, and is clearly conditioned on closer and more intensive cooperation of the institutions involved.

It is undoubtedly desirable for European financial markets to have comparable deposit insurance parameters and to work as a stabilising factor across Europe. But it is questionable whether plans for the centralisation of this function on the European level contribute to the achievement of that goal. Personally, I do not consider that trend helpful, in particular knowing the qualities of the Czech financial market and taking into account the high level of efficiency, professionalism, and cost-effectiveness of deposit insurance on our national level. That is why I am pleased that the Fund is an active member of European and international organisations of deposit insurers and that it has the opportunity to influence further development or to prepare for it in advance.

In 2013, we will carry on in pursuing the Fund’s mission and work to further enhance its operative, but also its financial preparedness. I base my expectations to the hope that reasonable solutions will be sought and successfully found on the European level. And finally, I expect that on the national level, cooperation will be enhanced such as to ensure good and reliable systemic communication, timely preparedness of all of the parties involved in the financial rescue system, and the readiness for action in all key areas of deposit insurance.

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 (hereinafter referred to as "the CNB" or "the Czech National Bank"), at the recommendation of the Czech National Bank, and at least two Members of the Fund's Board of Directors are appointed from among the members of the boards of directors of banks. The term of office of individual Members of the

Board of Directors is five years, 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 2012. Michal Franěk was re-appointed for a five-year period on 7 December 2012.

Membership of the Board of Directors in 2012

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 – Deputy CEO and 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 Vice-Chairman of the Board of Directors of Modrá pyramida stavební spořitelna, a. s.
Executive Director:	Renáta Kadlecová

Executive Director: **Renáta Kadlecová**
Director of Modrá pyramida stavební spořitelna, a. s.
– Deputy Director and Vice-Chairman of the Board of Directors of Modrá pyramida stavební spořitelna, a. s.
the Czech Republic

III. ACTIVITIES OF THE DEPOSIT INSURANCE FUND IN 2012

Macroeconomic Developments in the EU and the Czech Republic in 2012

The Czech economy entered 2012 with expectations oscillating slightly at around zero growth, in either direction. The more optimistic estimates spoke about growth in excess of 1%, and the more pessimistic ones about a drop of up to 0.5%. Somewhat more pessimistic were the prognoses related to the EU, and in particular to the Eurozone, where the general expectation was of a decline, but not in excess of 0.5%. Similar thoughts were expressed in terms of employment. The statistical results achieved at the beginning of the year indicated that the sceptics would be right, and the final result was even worse than the one they had expected. The Czech economy entered 2012 with a year-on-year GDP decrease for Q1 of 0.4%. That decline kept accelerating and the annual figure was 1.2% lower than in 2011 in a year-on-year comparison. This result was most strongly influenced by the significant decline in household consumption. It was down by 4.1% year on year, and according to the Czech Statistical Office, this indicator is the product of quarterly declines that "have no like in the history of the Czech economy". Another major influence was the reduction of government sector consumption. And the unwillingness of the corporate sector to invest was again manifest.

We agree with those people who hold that the above-mentioned adverse development is not based on an objectively worse situation. Rather, it is the consequence of uncertainty and of subjective negative expectations that arose in previous years. The said discrepancy between the objective situation and subjective attitudes and decisions is also evident from the development of corporate deposits with banks which as at December 2012 noted year-on-year growth from CZK 673 bn. to CZK 716 bn., i.e., by nearly 6.4%. Household deposits grew similarly, although not as dramatically in terms of percentage, by approximately CZK 59 bn., which means approximately 3.4%. Hence, both corporations and the general public preferred savings to consumption and investments. As at December 2012, the aggregate indicator of balances and deposits, M2, recorded year-on-year growth from CZK 2,818 bn. to CZK 2,949 bn., i.e., by 5%.

Consumer demand was stifled not only by conservative behaviour and fears of the future, but also by increasing inflation especially due to growth in regulated prices. The consumer price index was up by 3.3% year-on-year, with the prices of food (6.6%), prices of utilities (8.6%), and housing-related services (8%) having had the greatest impact. Also prices of healthcare were up significantly (9.3%). The harmonised consumer price index reached the annual value of 2.4% and was just above the average of the Eurozone (2.2%) and of EU countries (2.3%).

The labour market did not note very positive indicators, as the registered unemployment level reached 9.4%, which means year-on-year growth by 0.8 percentage points. The number of registered jobless persons reached its all-time high of 545,300. In spite of that, the number of jobless claims went down from 129,951 in December 2011 to 107,937 in December 2012. Compared to the EU and Eurozone averages, the Czech employment results are not that bad, as the general unemployment rate in the Czech Republic according to the ILO methodology was 7.2%, whereas the EU average was 10.7% and the Eurozone average was 11.8%. Significant territorial and structural differences prevail on the labour market. Real wages in the business sector were down by 0.5%, as well as in the non-business sphere, by 1.1%.

The government budget ended up with a significantly lower deficit than in 2011, amounting to CZK 101 bn. The budgetary expectations in terms of income were not met, by nearly CZK 40 bn., and budgetary expense had to be cut. A major contributing factor to the failed expectations was the drop in value-added tax collection. The missing nearly CZK 22 billion is attributed mainly to decline in household consumption in terms of non-essential goods which are subject to the basic, i.e., not reduced, tax rate.

The Czech National Bank responded to the absence of inflation pressures, having significantly lowered interest rates first in June (repo rate of 0.5%) and then again sharply in November, when the repo rate and the discount rate reached their all-time low of 0.05%. The central bank was only dissuaded from reducing them to zero by the fact that various statutory provisions on sanctions are tied to those rates. The banking sector in the Czech Republic manifested above-average stability and financial health in the European context in 2012. The three largest banks recorded an after-tax profit that was tens of percent higher than in 2011, and their individual absolute amounts were around CZK 15 bn. It is therefore no surprise that the banking sector stress tests carried out by the CNB showed the sector's resistance to adverse influences. Even a serious stress scenario combining strongly negative development in domestic and foreign economies and the increasing financial crisis of the Eurozone resulted in a capitalisation of the banking sector above 8%, which is the regulatory minimum.

Activities of the Deposit Insurance Fund in 2012

In 2012, 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 2012 and the second in October – November 2012. In 2012, on the basis of an announcement of the Czech National Bank dated 2 July 2012, the Fund commenced and continuously carried out the disbursement of compensation for the deposits of the clients of UNIBON, spořitelní a úvěrní družstvo which had become unable to meet its obligations to entitled persons based on statutory and contractual conditions. The disbursement of deposit compensation to the cooperative's clients which also had a branch in Slovakia was commenced by the Fund on 23 July 2012 through seven selected GE Money Bank branches in the Czech Republic and one branch of Všeobecná úverová banka in Bratislava. On this disbursement, the Fund is cooperative closely with the Slovak Deposit Protection Fund on the basis of their agreement.

In 2012, the first three-year cycle of regular internal IT audits commenced. This initial cycle is carried out by KPMG Česká republika, s.r.o. Following an initial risk analysis, an audit plan was determined and its first stage was carried out as at the end of the year, focusing on high-risk areas: audit of the information security management process and audit of the client data testing process. The remaining two stages of the audit will follow in 2013 and 2014.

In 2012, the Fund commenced or executed several public contracts in compliance with Act No. 137/2006 Coll., on public procurement, as amended. Its major 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 meet their commitments to entitled persons from statutory or contractual conditions; 2. Below-the-limit public contract for the selection of the supplier and administrator of the POVYNAL IT application (application for processing client data both in the mode of deposit compensation disbursement pursuant to the Act and in the mode of verifying the correctness of the maintenance of that data ("testing") pursuant to Regulation No. 71/2011 Coll.).

In the course of 2012, banks made a total contribution to the Deposit Insurance Fund of CZK 3,526.6 mil., with the total volume of the Fund's financial reserves amounting to CZK 24,682 mil. at the end of 2012. Partial distribution of assets of the bankrupt Universal banka took place in 2012, in which the Deposit Insurance Fund received performance amounting to CZK 130.38 mil.

On 19 June 2012, the Czech National Bank approved the Deposit Insurance Fund's Debt Issuance Programme with duration of 10 years and the maximum aggregate amount of outstanding bonds issued under the Programme being CZK 100,000,000,000. The establishment of the programme is of a preparatory nature, in case additional resources beyond the financial reserves of the Fund are needed. Presently, the Fund is not planning to launch any bond issue under the Programme.

The reason for establishing the Programme is the fact that the Act on Banks, No. 21/1992 Coll., sets high requirements for the Fund in terms

of the speed of reimbursement of deposit compensation (the period is only 20 business days), and imposes the obligation on the Fund to acquire additional financial resources from the financial market at first. Establishing the Debt Issuance Programme documentation will thus enable the Fund to launch a bond issue as quickly as possible should the need of financial resources arise suddenly. If the Fund is not able to obtain financing from the financial market, refundable financial assistance or subsidy from the government budget may be provided to according to the Act on Banks.

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 2012.

Since its establishment, the Deposit Insurance Fund has disbursed compensation for insured deposits of over CZK 27 billion. Payments have been made to approximately 300,000 clients of 12 banks and two cooperative savings banks that went bankrupt between 1995 and 2012. Currently, deposits totalling CZK 2.5 trillion at 36 financial institutions are insured through the Deposit Insurance Fund. These in turn contributed CZK 3.5 billion to the Fund in 2012.

The Act on Banks

The activities of the Fund are regulated by means of Section 41 a through Section 41 o and the joint and transitional provisions of amendments to the Act No. 21/1992 Coll., on Banks, as amended (hereinafter also referred to as "the Act").

Pursuant to the Act, all banks and building societies are obliged to participate in the deposit insurance system and contribute to the Fund to the scope stipulated in the Act. Cooperative savings banks have been obliged to participate in the deposit insurance system and to contribute to this system in the scope determined by the Act, since 2006.

Pursuant to Section 41 c 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 41 c (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 41 g (2) of the Act, those persons who have a special relationship to a bank and the holders of deposits otherwise eligible if it has been proven by an enforceable judgement that the deposit originates from criminal activity.

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 a bank is not able to meet its commitments to entitled persons under the legal and contractual terms and conditions. Compensation is granted both to individuals and legal entities and is disbursed in Czech currency.

In 2010, Act No. 156/2010 Coll., took effect, amending Act No. 21/1992 Coll., on Banks, as amended. This Act brought about a number of significant changes to the deposit insurance system. Among the most fundamental are the following provisions: the setting of the volume of the funds of the Fund that results into considerable decrease of the contribution, at 1.5% of the aggregate volume of receivables from the deposits insured with the Fund; a change in the periodicity of the payment of bank contributions to the Deposit Insurance Fund, from annual to quarterly, and a 60% increase of the contribution (the contribution newly amounts to 0.04% for banks and 0.02% for building societies, of the average volume of the receivables from deposits in the given calendar quarter); the possibility for the Fund to apply, if necessary, for a subsidy or refundable financial assistance from the government budget; in the event of the disbursement of deposit compensation, a change in the method of calculating deposit compensation (a change in the calculation of interest and the cancellation of the set-off of due receivables against the liabilities of entitled persons, up to the amount of the account balance); the obligation of banks to maintain a record of information and, in the event of a disbursement of compensation, to provide that information to the Fund; the obligation of the Fund to verify, on a regular basis, and at least once a year, the functioning of the deposit compensation disbursement system (i.e., bank data testing).

In line with the above-mentioned Act, the level of coverage for an entitled person was increased to EUR 100,000 as at 31 December 2010, and at the same time, the period for the commencement of the disbursement of deposit compensation was shortened significantly, from 3 months to 20 business days, from the day on which the Czech National Bank declares a bank to be insolvent, i.e., unable to meet its commitments to entitled persons under the legal and contractual conditions.

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

Disbursement of Compensation

Pursuant to Section 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 18 cases, granted in the form of 14 regular and four additional payments as compensation to depositors of twelve banks and two cooperative savings banks, totalling **CZK 27.3 billion**, as at 31 December 2012. In 2012, the Fund commenced the disbursement of compensation to the clients of UNIBON, *spořitelní a úvěrní družstvo*, having paid out compensation totalling CZK 1.8 bn. as at 31 Dec. 2012.

During 2012, another part of an unwarranted disbursement of additional compensation to depositors of *Moravia banka, a. s.*, of CZK 2.8 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 147.7 million¹, which is about 81.7% 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 31/12/2012

In CZK mil.

Bank	Deposit compensation disbursed	Date of commencement of compensation disbursement
Česká banka, a. s.*	948.61	11/12/1995
AB banka, a. s.	0.03	31/1/1996
První slezská banka, a. s.	217.48	15/5/1996
Podnikatelská banka, a. s.	1,073.54	17/6/1996
Realitbanka, a. s.	23.97	24/7/1996
Velkomoravská banka, a. s.	1,006.09	29/7/1996
Kreditní banka Plzeň, a. s.	580.30	23/9/1996
Pragobanka, a. s.**	414.13	1/12/1998
Universal banka, a. s.**	2,299.75	17/5/1999
Moravia banka, a. s.**	6,394.92	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, spořitelní a úvěrní družstvo	1,785.26	23/7/2012
Total	27,314.91	

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

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

Receivables of the Deposit Insurance Fund from Banks

Pursuant to Section 41h (2) of the Act, starting with the disbursement commencement date, the Fund will become a creditor of a bank that has failed to meet its commitments under the legal and contractual terms and conditions, within the scope of the rights of the entitled persons of the bank to be paid by the Fund. Of the 12 banks and two cooperative savings banks paid out, bankruptcy proceedings have been completed in only three cases. Of the amount of disbursed compensation for deposits, which had reached CZK 27.3 billion as at 31 December 2012, 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 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. The reason is that the amendment to the Act, under which the 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 2012, for the bankruptcy proceedings of disbursed banks. Of the total registered receivables of CZK 23,699.7 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. In 2012, the Fund received an advance as a part of the partial distribution in the case of *Universal banka, a.s.*, amounting to CZK 130.4 mil. The Fund currently has CZK 19,481.8 million of receivables registered against banks.

Table No 2 | **Overview of Registered Receivables in Bankruptcy and Liquidation Proceedings as at 31/12/2012**

Bank	Type of disbursement	In CZK mil.		
		Registration for bankruptcy/ liquidation	Returned to the Fund	Receivable in bankruptcy/ liquidation
Česká banka, a. s.	Regular	518.56		
	Additional	443.11		961.67
AB banka, a. s.	Regular	0.23	0.02	0.21
První slezská banka, a. s.	Regular	217.50	10.87	206.63
Realitbanka, a. s.	Regular	24.20		24.20
Velkomoravská banka, a. s.	Regular	1,006.63		1,006.63
Kreditní banka Plzeň, a. s.	Regular	580.95	49.38	531.56
Universal banka, a. s.	Regular	1,862.64	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
Vojenská družstevní záložna	Regular	69.05		69.05
UNIBON, spořitelni a úvěrni družstvo	Regular	1,806.58		1,806.58
Total		23,699.69	4,217.91	19,481.78

As for bankruptcy proceedings terminated by the end of 2012, judicial composition has already been carried out in the case of *Podnikatelská banka, a. s.*, and composition as part of the closing schedule in the case of *Pragobanka, a. s.*, and *Plzeňská banka, a. s.*

This means that as at 31 December 2012 the Fund no longer has any receivables from these three banks. A summary of these satisfied receivables including received revenues and yield is given in the following table.

Table No 3 | **Summary of the Proceeds of Receivables Against Banks at Completed Bankruptcy Proceedings as at 31/12/2012**

Bank	Type of disbursement	In CZK mil.		
		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
Total		1,558.58	803.52	51.55

* 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 2012, banks paid quarterly contributions to the Fund, in line with the newly enacted Act No. 156/2010 Coll. Overall, banks paid thus

contributions in 2012 for the 4th quarter of 2011 and the 1st to 3rd quarters of 2012 totalling CZK 3,526.6 mil. The table below shows an overview of the contributions received by the Fund since its establishment in 1994.

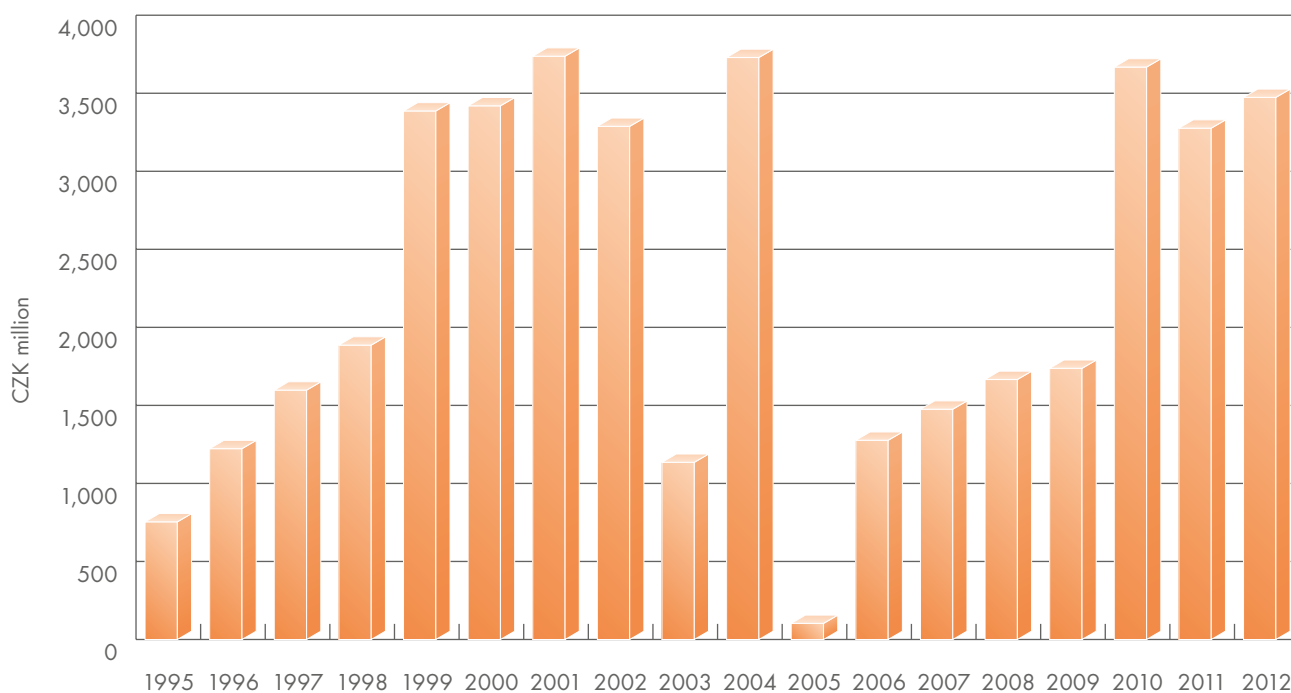
Table No 4 | Contributions by banks to the Fund, by Year of Contribution Payment

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
Total	41,789.28

Note: *In 2004, an advance for the payment of a contribution due in 01/2005 was paid.

**In 2010, the periodicity of payments changed from annual to quarterly as at 1 July.

Graph No 1 | Contributions paid to the Fund (by year of payment)

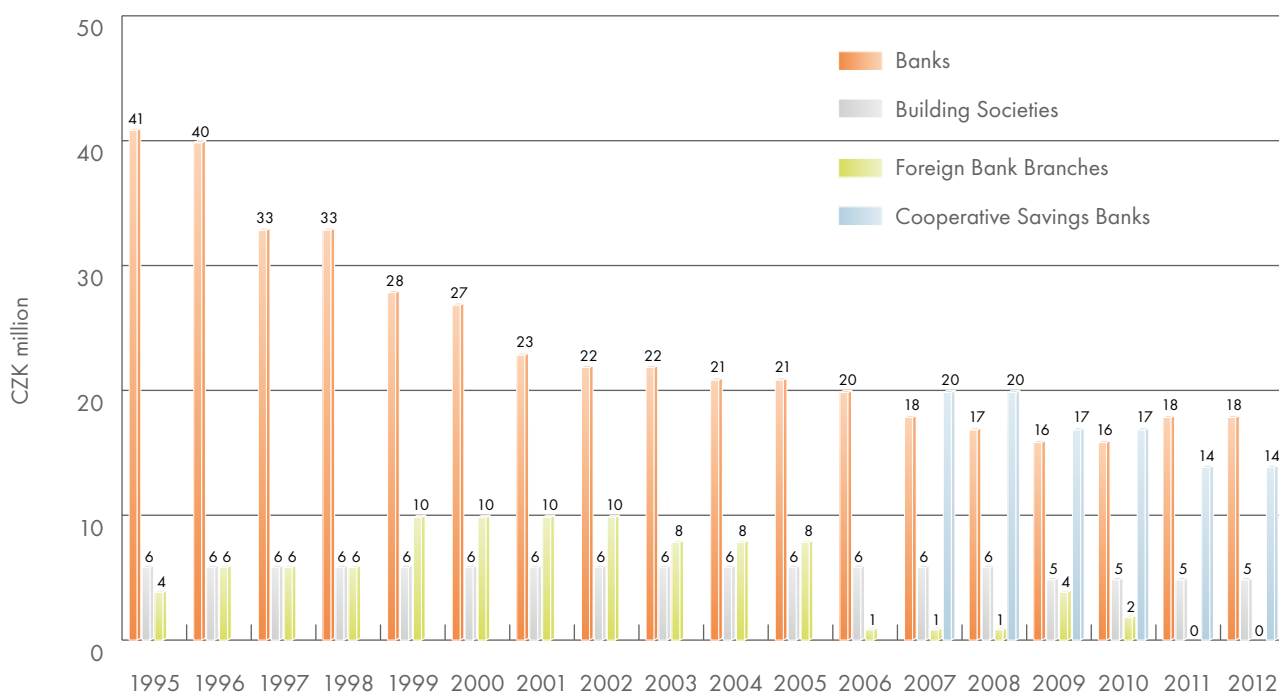


As of 1 July 2010, the contribution amount is governed by the amended Act on Banks, No. 156/2010 Coll., Sec. 41c (6) and (7).

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

The contribution of a building society to the Fund amounts to 0.02% of the average volume of the insured receivables from deposits for the relevant calendar quarter. The average volume of the insured receivables from deposits is calculated by the building society, according to the amount of the insured receivables from deposits as at the last day of each calendar month in the given calendar quarter, including any interest to which the depositor was entitled as at the same date, without factoring in advances on government support. A bank is obliged to pay its contribution to the Fund for the given calendar quarter by the end of the calendar month subsequent to the end of the calendar quarter. The contribution is paid in Czech crowns. Due to the harmonisation of the insurance protection amounts in EU countries, all topping-up agreements were terminated in 2010, one by one. In 2012, no branch of a foreign bank paid contributions to the Fund.

Graph No 2 : Number of Institutions Contributing to the Fund



International Cooperation

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

In 2012, European deposit insurance systems focused on discussions related to cooperation in the disbursement of deposit compensation in the event of cross-border bank bankruptcies. The aim of this cooperation is to ensure the highest comfort possible for the client, i.e., in particular the provision of information and the making of deposit compensation available in the country in which a foreign branch operated. A special seminar devoted to deposit insurance system

governance was held in Yerevan in May. A conference held on the occasion of the annual EFDI meeting in September in Geneva was devoted to the role of deposit insurance systems in crisis management and the role of social media in that period.

At the International Association of Deposit Insurers, practical seminars were held 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 issued by the Basel Committee for Banking Supervision and IADI. A special seminar that took place in Sofia focused on legal issues related to the operation of deposit insurance systems. In November, the annual meeting of the IADI was held in London, focusing on the role of the deposit insurance system in the financial safety net. Above all, the relationship between the central bank and the regulator was discussed, and also the issue of consumer, i.e., depositor expectations and awareness with respect to the existence and limitations of a deposit insurance system.

In the course of bilateral cooperation, Fund representatives visited the Polish Bank Guarantee Fund. Discussions focused primarily on issues concerning the strategy of securing financial resources for covering deposit compensation disbursements, cooperation with the central bank, new IT and SW systems for ensuring the disbursement of deposit compensation and the possibilities of mutual cooperation in cross-border deposit compensation disbursement.

The Fund initiated close cooperation with the Slovak Deposit Protection Fund in 2012, in order to ensure the disbursement of compensation for depositors of the branch of the UNIBON, spořitelní a úvěrní družstvo in Slovakia.

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 and on the conservative investment strategy arising therefrom. These principles primarily reflect the role of the Deposit Insurance Fund as a stabilising element in the banking system, with specific requirements as to liquidity and the security of the assets allocated.

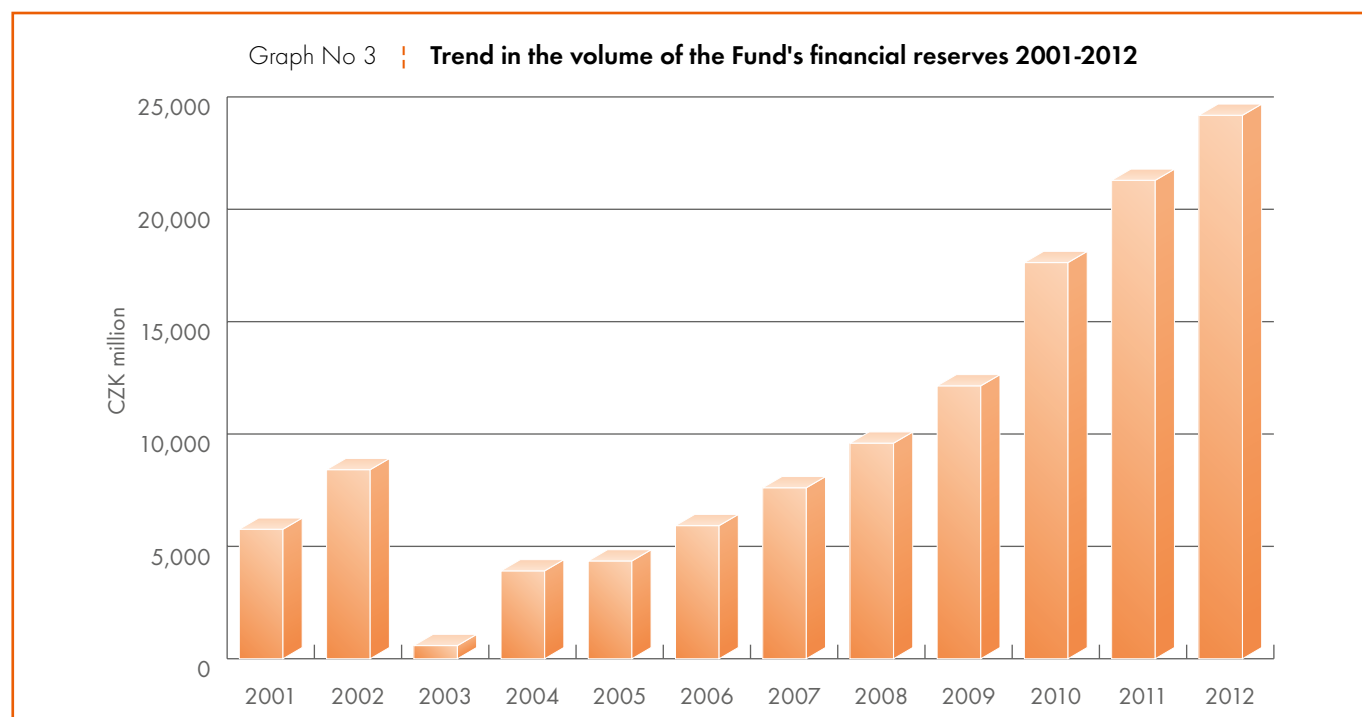
Through Strategic (mid-term) and Tactical (short-term) asset allocation, the investment policy determines the manner of investment of financial reserves both by investment managers and the Deposit Insurance Fund itself. Strategic asset allocation defines, above all, the investment limits for individual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

The total volume of the Fund's financial reserves at the end of 2012 reached CZK 24,682 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. The duration of the Mark to Market Portfolio is targeted between 2 and 3 years. As at the end of 2012, the Mark to Market Portfolio's share of the total volume of the Deposit Insurance Fund's financial reserves amounted to 53%.

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 domestic government bonds and its duration is targeted between 6 and 7 years. As at the end of 2012, 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 2012, the Short-term Portfolio's share of the total volume of the Deposit Insurance Fund's financial reserves amounted to 33%.



The financial reserves of the Deposit Insurance Fund as at the end of 2012 were comprised mostly of medium-term and long-term domestic

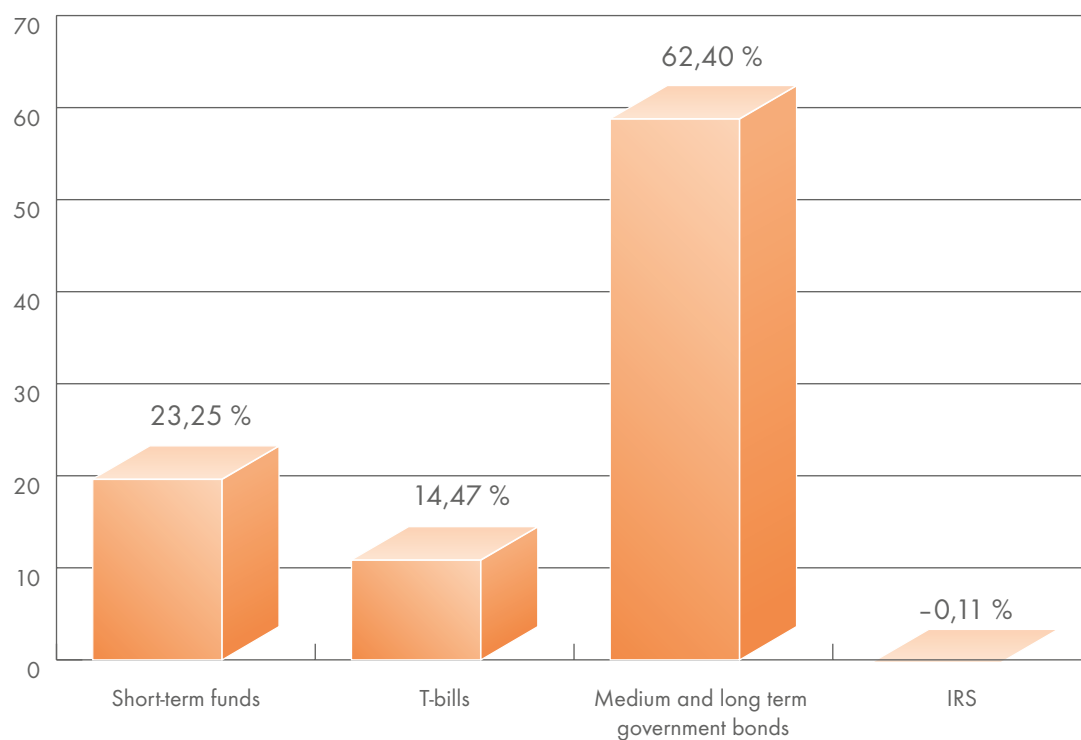
government bonds (62%), short-term funds (23%), and government treasury bills (15%).

Table No 5 | STRUCTURE OF FINANCIAL RESERVES BY INSTRUMENT, AS AT 31 DEC. 2012

Type of instrument	Market value in CZK mil.
I. Current accounts, term deposits, receivables*	5,738.06
II. Bonds:	18,971.27
Of which: treasury bills and Czech National Bank bills	3,570.88
Medium- and long-term government bonds	15,400.39
III. IRS	(27.28)
IV. Total	24,682.05

* Receivables from buy & sell and repo operations, receivables from issuers from unpaid coupons

Graph No 4 | Structure of financial reserves by instrument, as at 31 December 2012

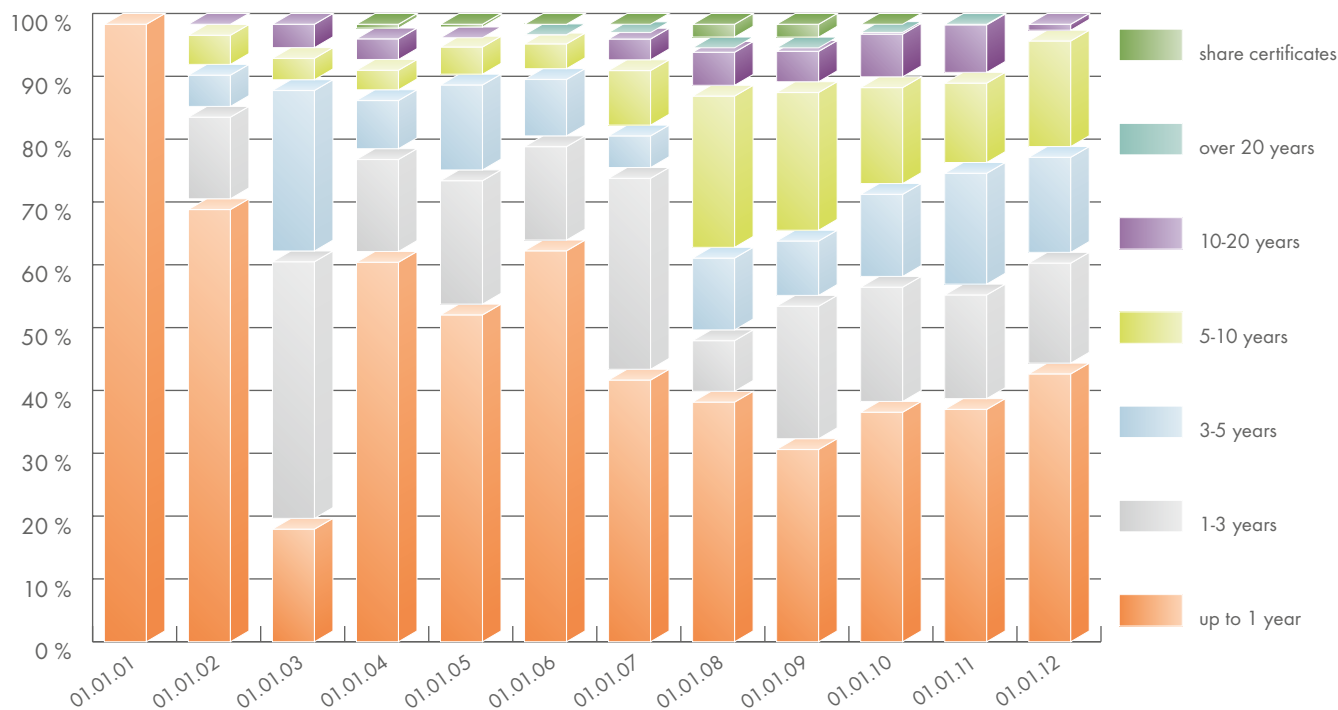


Debt instruments maturing within 1 year (44%), between 1 and 3 years (18%), and between 5 and 10 years (17%), made up the largest share of the volume of the financial reserves.

Table No 6 | STRUCTURE OF FINANCIAL RESERVES BY MATURITY AS AT 31 DEC. 2012

Instrument maturity	Market value in CZK mil.
I. Up to 1 year	10,946.02
II. 1 to 3 years	4,352.19
III. 3 to 5 years	4,155.57
IV. 5 to 10 years	4,572.08
V. 10 to 20 years	656.19
VI. More than 20 years	0
VII. Total	24,682.05

Graph No 5 | Development of the financial reserves by maturity



2012 was one of the most successful years in terms of the performance of the managed financial reserves. The overall gross yield of the Fund's financial reserves in 2012 amounted to 4.55% p.a. as compared to 2.20% p.a. in 2011, which expressed in nominal amount CZK 1,056 mil. The higher yield was achieved in spite of the portfolio's liquidity position having been strengthened by the reallocation of a part of financial reserves to cash, whose share grew from 12% to 23%.

Management by investment managers achieved a performance of the Mark to Market Portfolio of 6.99% p.a. as compared to the benchmark performance of 5.41% p.a. A very positive fact is the achievement of a higher surplus yield above the benchmark, not only as compared to 2011, but also to 2010, which was very successful in terms of portfolio performance. This success is underscored by the fact that the higher surplus yield was achieved in spite of the increased investment policy conservativeness.

IV. MAIN CASH FLOWS OF THE FUND – HISTORY

Table No 7 | Summary Overview of the Income and Expenses of the Fund, 1995–2012 (in CZK mil.)

I.	Income	55,484.62
	Contributions from banks 1995-2012	41,789.45
	Income from judicial composition and bankruptcy	5,022.45
	Returns of disbursed compensation	129.67
	Returned non-disbursed compensation advances	60.08
	Interest received and other revenues	5,482.96
	- investment income	5,464.79
	- other financial revenue	18.18
	Loans received	3,000.00
II.	Expenditure	30,806.44
	Disbursement of deposit compensation 1995–2012	27,457.17
	Operating expenses	228.12
	Interest paid	121.16
	Loan repayments	3,000.00
III.	Difference between income and expenditure	24,678.17

No events took place after the balance sheet date, which could have material impact on the financial statements as at 31 December 2012.

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

5 June 2013



Ing. Josef Tauber
Chairman of the Board of Directors



Ing. 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 2012 disclosed in the annual report on pages 20-34 and issued the opinion dated 5 June 2013 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 2012 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 2012 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 carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the annual report since it was initially presented on the website.

5 June 2013

PricewaterhouseCoopers Audit, s.r.o.
represented by
Zuzana Tairova
Ing. Zuzana Tairova
Director

Eva Loulová
Ing. 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 2012

Audit opinion to financial statements



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 2012, the income statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal 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 2012 and its financial performance for the year then ended in accordance with Czech accounting legislation.

5 June 2013

PricewaterhouseCoopers Audit s.r.o.
represented by
Zuzana Tairova
Ing. Zuzana Tairova
Director

Eva Loulová
Ing. 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 2012
	Date of the compilation of the financial statement	5 June 2013

Balance sheet as at 31 December 2012
(CZK '000)

ASSETS	as at 1 January 2012	as at 31 December 2012
A. Total fixed assets	3,084,511	3,371,947
I. Intangible fixed assets – software	2,553	2,553
II. Tangible fixed assets	2,053	2,083
Works of art, objects and collections	46	46
Buildings	297	297
Machinery and equipment	1,710	1,740
III. Long-term investments – bonds, debentures and similar securities held to maturity	3,082,246	3,370,228
IV. Total accumulated depreciation of fixed assets	(2 341)	(2 917)
Accumulated depreciation of software	(1 051)	(1 880)
Accumulated depreciation of buildings	(23)	(29)
Accumulated depreciation of machinery and equipment	(1 267)	(1 008)
B. Total current assets	36,529,522	40,827,828
II. Total receivables	20,388,830	24,907,208
Operating advances paid	156	156
Other receivables	20,388,674	24,907,052
III. Total short-term financial assets	16,140,620	15,920,547
Cash	6	13
Stamps and vouchers	15	32
Bank accounts	36,305	324,349
Bonds, debentures and similar securities held for trading	16,104,294	15,596,153
IV. Total other assets	72	73
Prepaid expenses	71	73
Accrued revenues	1	0
Total assets	39,614,033	44,199,775

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2012

(CZK '000)

LIABILITIES	As at 1 January 2012	As at 31 December 2012
A. Total equity	39,605,430	44,139,070
I. Equity – funds	37,963,750	41,490,594
II. Total profit/loss	1,641,680	2,648,476
Profit/loss for the period	402,112	1,006,796
Retained earnings	1,239,568	1,641,680
B. Total liabilities	8,603	60,705
III. Total short-term liabilities	8,603	60,705
Payables to suppliers	128	505
Other payables to employees	715	901
Payables to social security and health insurance	461	274
Other direct tax liabilities	191	184
Payables from fixed term operations	107	18,693
Other payables	2,484	22,034
Estimated payables	4,517	18,114
Total liabilities	39,614,033	44,199,775

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2012

Profit and Loss For the year ending 31 December 2012
(CZK '000)

	Activity		
	Main	Economic	Total
A. Expenses			
I. Total consumed purchases	255	0	255
1. Material consumption	255	0	255
II. Total services	17,126	0	17,126
5. Repairs and maintenance	35	0	35
6. Travel expenses	820	0	820
7. Representation expenses	178	0	178
8. Other services	16,093	0	16,093
III. Total personnel expenses	7,235	0	7,235
9. Wages and salaries	5,412	0	5,412
10. Obligatory social security	1,633	0	1,633
12. Obligatory social expenses	77	0	77
13. Other social expenses	113	0	113
IV. Total taxes and fees	49	0	49
14. Road tax	2	0	2
16. Other taxes and fees	47	0	47
V. Total other expenses	51,284	0	51,284
21. Foreign exchange losses	34	0	34
24. Other expenses	51,250	0	51,250
VI. Depreciation and assets sold	5,491,198	0	5,491,198
25. Depreciation of intangible and tangible fixed assets	1,118	0	1,118
27. Securities and investments sold	5,490,080	0	5,490,080
Total expenses	5,567,147	0	5,567,147

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2012

(CZK '000)

	Activity		
	Main	Economic	Total
B. Revenues			
IV. Total other revenues	429,626	0	429,626
13. Contractual penalties and default interest	5	0	5
15. Interest	12,840	0	12,840
16. Foreign exchange gains	1	0	1
18. Sundry other revenues	416,780	0	416,780
V. Revenues from sale of assets	6,144,317	0	6,144,317
20. Revenues from sale of securities and investments	5,608,902	0	5,608,902
22. Revenues from short-term financial assets	404,451	0	404,451
24. Revenues from long-term financial assets	130,964	0	130,964
Total revenues	6,573,943	0	6,573,943
C. Profit/loss before tax	1,006,796	0	1,006,796
D. Profit/loss after tax	1,006,796	0	1,006,796

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2012

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 2012 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 2012

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 amortised by straight line method over 3 years and tax rates.

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

2.3. | Securities 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 2012

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 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 recognised at the purchase price including transaction costs and further valuated at amortised costs.

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

Repo and buy-sell operations:

Collateralised 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 2012

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 recognised 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 measure 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, recognises payables to the bank clients, which the compensation is disbursed for, against the reduction of the amount of managed funds account included in equity financing. 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 2012

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

3.1. | Other receivables

(CZK'000)	31 December 2012	31 December 2011
Receivables from compensations paid out	19,481,774	17,805,581
Receivables from repo operations	5,394,138	2,549,762
Receivables from duplicate payments	15,142	17,971
Receivables from accrued coupons	15,876	15,360
Receivables other	122	0
Other receivables – total	24,907,052	20,388,674

Other receivables contain receivables due from banks and cooperative savings unions which did not meet their commitments to their clients as at 31 December 2012 amounted to CZK 19,481,774,000 (as at 31 December 2011: CZK 17,805,581,000).

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 amortised costs:

(CZK'000)	31 December 2012	31 December 2011
Debt securities held to maturity	3,370,228	3,082,246

3.3. | Securities held for trading

Fair value of securities held for trading:

(CZK'000)	31 December 2012	31 December 2011
Debt securities held for trading	15,596,153	16,104,294

Securities held for trading as at 31 December 2012 and 31. December 2011 consisted of Czech government bonds in the amount of 77.1% and 70.7% respectively. The remaining part of the securities held for trading portfolio comprises T-bills in 2012 and bank and corporate bonds in 2011 respectively.

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2012

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 2012	31 December 2011
Opening balance	37,963,750	34,637,996
Contributions received (note 3.6)	3,526,624	3,329,394
New receivables from insolvent banks	1,806,577	69,050
Written-off receivables and payables from compensation disbursements	0	(3,600)
Compensation disbursement	(1,806,577)	(69,050)
Additional payments and refunds from settlement	220	(40)
Closing balance	41,490,594	37,963,750

On 23 July 2012, the Fund started to pay compensation to clients of UNIBON, spořitelni a úvěrní družstvo. Out of the total expected compensations in the amount of CZK 1,807 million, recorded as New receivables from insolvent banks, the Fund managed to pay out CZK 1,785 million, i.e. 98.8% by 31 December 2012.

3.5. | Payables

Payables from compensation disbursements as at 31 December 2012 amounted to CZK 22,034,000 (31 December 2011: CZK 2,482,000).

Payables from social security and health insurance as at 31 December 2012 amounted to CZK 274,000 (31 December 2011: 461,000), of which CZK 138,000 (31 December 2011: CZK 323,000) are social security payables and CZK 136,000 (31 December 2011: CZK 138,000) health insurance payables. None of these payables were overdue.

Tax liabilities as at 31 December 2012 amounted to CZK 184,000 (31 December 2011: CZK 191,000). None of these payables were overdue.

3.6. | Bank contribution

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

(CZK'000)	2012	2011
Contributions received from banks	3,526,624	3,329,394

FOND POJIŠTĚNÍ VKLADŮ

Financial Statements

Year ended 31 December 2012

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

(CZK'000)	31 December 2012	31 December 2011
Revenues:		
Revenues from the sale of securities	5,608,902	4,056,069
Revenues from short-term financial assets	404,451	356,980
Revenues from long-term financial assets	130,964	116,331
Other revenues (see note 3.8.)	429,626	177,667
Total	6,573,943	4,707,047
Expenses:		
Securities sold	(5,490,080)	(4,079,319)
Depreciation of fixed intangible and tangible assets	(1,118)	(1,024)
Purchases consumed	(255)	(232)
Services	(17,126)	(11,511)
Personnel costs	(7,235)	(7,045)
Taxes and fees	(49)	(35)
Other expenses (see note 3.8.)	(51,284)	(205,769)
Total	(5,567,147)	(4,304,935)

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3.8. | Other revenues and other expenses

(CZK'000)	31 December 2012	31 December 2011
Revenues:		
Interest	12,840	22,874
Exchange rate gains	1	3
Other revenues – exchange rate revenues from securities transactions and change in the fair value of derivatives held for trading	12,021	67,779
Other revenues – change in fair value of securities for trading	404,536	87,009
Other	223	2
Contractual penalties, default interest and fines	5	0
Other revenues in total	429,626	177,667
Expenses:		
Exchange rate losses	(34)	(35)
Other expenses – exchange rate losses from securities transactions and change in the fair value of derivatives held for trading	(35,078)	(82,278)
Other expenses – change in fair value of securities for trading	(14,649)	(122,029)
Other	(1,523)	(1,427)
Other expenses in total	(51,284)	(205,769)

Of the total interest income of CZK 12,840,000 (31 December 2011: CZK 22,874,000), revenues from buy-sell operations amounted to CZK 11,789,000 (31 December 2011: CZK 19,652,000).

Profits from 2011 amounting to CZK 402,112,000 were transferred to retained earnings from previous years. Profits from 2012, amounting to CZK 1,006,796,000 are proposed for transfer to retained earnings from previous years.

The average number of the Fund's employees is five, including one manager. Total wage expenses in 2012 amounted to CZK 5,412,000 (2011: CZK 5,109,000).

The Fund did not provide any remuneration, advances or loans to members of the Board of Directors in 2012 or 2011. In 2012 and 2011 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 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 Compensation) 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 judgement 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 judgement and subsequently supplemented its appeal. The court hearing of the appeal, ordered by the Municipal Court in Prague for 27 May 2013, has been adjourned.

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. The Fund has numerous legal arguments to support the Fund and therefore also the potential success of the Fund in this case.

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 Compensation), 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. A court hearing has been ordered by the District Court for Prague 1 for 15 July 2013.

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 Compensation, 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 by courts in other matters can lead to the opinion that the Act on Additional Compensation 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

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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. On 29 May 2013 the District Court for Prague 1 brought in a verdict in which it rejected the claimant's lawsuit and bound him to pay legal costs. The written wording of the judgement has not been issued yet and the judgement has not yet come into legal force. After delivery of the judgment the claimant may appeal to the Municipal Court in Prague.

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 13 February 2013, the ČNB declared that Úvěrní družstvo PDW, Praha were 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 11 March 2013 the Fund commenced payment of compensations to its depositors. Total expected compensations amount to CZK 15.8 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 2012.

The financial statement was approved by the Fund's Board of Directors and signed on the basis of its authorisation.

5 June 2013



Ing. Josef Tauber
Chairman of the Board of Directors



Ing. Petr Vojtíšek
Member of the Board of Directors