

# ANNUAL REPORT

for 2017



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# I INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



The year 2017, i.e. the second year in the history of the new structure of the Financial Market Guarantee System, has been characterised mainly by improving robustness, finishing the implementation of the previously initiated changes and implementing mid-term projects. While the previous period tested the readiness of the Financial Market Guarantee System for the

disbursement of deposit compensation with shortened deadlines, 2017 did not bring any new disbursement event. Thus, the biggest portion of expenses incurred by the Financial Market Guarantee System, amounting to nearly CZK 227 million, was spent on the continued payouts of compensation for deposits with ERB bank, which was stripped of its banking licence at the end of 2016, and on the completion of payouts concerning the former credit unions MSD and WPB Capital, as it was in 2017 when the three-year "payout" period expired with regard to these two cooperative credit unions. Conversely, on the revenue side the Financial Market Guarantee System recorded not only a regular contribution from the participating banks and cooperative credit unions totalling CZK 940 million, but also income from ongoing bankruptcy and liquidation proceedings, which exceeded CZK 1.5 billion. All of this translated to an increase in the reserve in the Deposit Insurance Fund, which reached CZK 30 billion by the end of 2017, i.e. roughly 1.35% of covered claims from deposits. This level, which is high even by international standards, is a good contribution to boosting the confidence of depositors in the domestic system and it will also ensure that in 2018 banks will once again make contributions at a reduced rate corresponding to 0.045% of the volume of covered claims from deposits.

The second element of the Financial Market Guarantee System – the Crisis Resolution Fund – was not used in 2017, as the crisis resolution mode was not activated for any credit institution or investment firm. Therefore, it was possible to continue the accumulation of resources for potential future use. The obligated parties made contributions to this fund totalling CZK 3 billion, which resulted in a doubling of the total reserve. In other good news, in spite of a strong focus on safety and liquidity, the allocation of resources of the Crisis Resolution Fund generated a positive return which will help cover expenses related to the administration of this fund.

In 2017, the Financial Market Guarantee System was fully focused on numerous mid-term projects which are of major significance for its future activities. One of the most important projects was the implementation of Evynal, a new system for the disbursement of deposit compensation,

including the testing of the system in a trial run and putting it into full operation. Not only does Evynal fully comply with all the changes in deposit insurance rules, but it also complies with the new Decree of the Ministry of Finance of the Czech Republic regulating the transfer of data to the Deposit Insurance Fund from banks and cooperative credit unions. 2017 also saw the continuation of work on stress tests of the system and their planning for upcoming years, as required of all national systems by the European Banking Authority. On the international level, 2017 saw a continuation of communication with - and definition of the level of - cooperation with foreign insurance deposit systems.

An equally important project is the continuous risk management which involves, besides performing comprehensive analyses, gradually adding new activities, performing reviews of threats or vulnerabilities and defining the priorities of corrective actions to reduce risks. One priority has been preparation for the implementation of new personal data protection rules which will be introduced this year by the GDPR regulation. As regards asset management, the Financial Market Guarantee System has updated its investment strategy and gradually transferred assets from external into internal management, which will lead to cost reductions and higher effectiveness in the management of the financial reserve in the subsequent period.

Not only in relation to the implementation of large-scale projects, but also in relation to day-to-day activities, I must once again highlight the highly professional approach from all our employees, who are one of the pillars on which the operation of the Financial Market Guarantee System stands. The smooth functioning of the Financial Market Guarantee System is also dependent on the work of the members of the Board of Directors, who devote a significant portion of their time to the system, while still busy doing their jobs, whether at the Ministry of Finance of the Czech Republic, the Czech National Bank or the Czech Banking Association. The Board of Directors that enters 2018 is modified as Mr. Josef Tauber has been replaced by Mr. Vladimír Staňura. I would like to thank Josef for the two decades he devoted to the Deposit Insurance Fund and then also the Financial Market Guarantee System. It was a demanding time, but thanks to his contributions everything has been dealt with perfectly.

The Financial Market Guarantee System finished 2017 with resources totalling CZK 30 billion in the Deposit Insurance Fund and CZK 6 billion in the Crisis Resolution Fund, with a fully implemented new system for the disbursement of compensation for deposits, with a stable staff structure and with clear-cut plans for the upcoming period. In all conscience I can say that it is ready to continue to operate as a key element of the safety net on the Czech financial market.

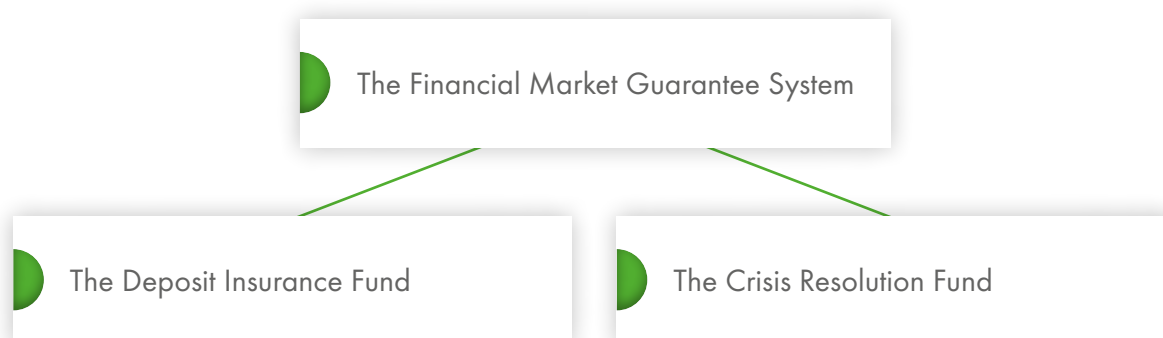
Dušan Hradil  
Chairman of the Board of Directors  
of the Financial Market Guarantee System

## II STRUCTURE OF THE FINANCIAL MARKET GUARANTEE SYSTEM

The Financial Market Guarantee System is an institution established by law to secure, manage and use financial resources intended to ensure and maintain the stability of the financial market in the Czech Republic. The Financial Market Guarantee System was established under its original name the Deposit Insurance Fund through Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, as amended. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

Since that date the Financial Market Guarantee System has assumed all the duties and functions of the former Deposit Insurance Fund, and also manages the new Crisis Resolution Fund. On that date, the Deposit Insurance Fund became an accounting unit of the Financial Market Guarantee System, similarly to the new Crisis Resolution Fund. Unlike the Financial Market Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund do not have legal personality.

### Accounting units



The first pillar of the Financial Market Guarantee System is the Deposit Insurance Fund, which is one of its accounting units. If the Czech National Bank (CNB) makes an announcement on any financial institution included in the deposit insurance system being unable to meet its obligations to beneficiaries under statutory and contractual conditions, or if a court makes a decision on the bankruptcy of such institution, the Financial Market Guarantee System will commence disbursement of compensation for receivables from deposits to the clients of that financial institution from the resources collected in that fund. Banks, branches of banks from non-Member States, building societies and cooperative credit unions (“insured institutions”) must make regular annual contributions to the Deposit Insurance Fund.

The second pillar of the Financial Market Guarantee System is the Crisis Resolution Fund, which is also one of its accounting units. The resources collected in it may be used if there is a threat to the stability of any of the financial institutions, assuming compliance with other statutory conditions. This fund can also be used within the framework of individual crisis resolution tools whose objective is to prevent situations that could otherwise result in the insolvency or bankruptcy of a financial institution and the subsequent disbursement of deposit compensation to its clients. This fund does not serve for direct disbursements of compensation for deposits, but enables a solution in cases when the rescue of the financial institution is feasible, credible and in the public interest. Contributions to the Crisis Resolution Fund are made not only by institutions already participating in the deposit insurance system, but also by some investment firms, also on a regular annual basis.

## III AUTHORISED REPRESENTATIVE

### Bodies of the Financial Market Guarantee System

The supreme body of the Financial Market Guarantee System is the Board of Directors. Its members are appointed by the Minister of Finance of the Czech Republic. The Board of Directors has five members and is composed of two employees of the Czech National Bank, two employees of the Ministry of Finance of the Czech Republic, and one member appointed on a proposal from the Czech Banking Association. Its members are appointed for a term of five years. To ensure continuity,

during the first appointment one member was appointed for 3 years, two members for 4 years and two members for 5 years. The statutory body of the Financial Market Guarantee System, which ensures the activity of the Financial Market Guarantee System and executes the decisions of the Board of Directors, is the Management Board. The Management Board has three members, who are appointed by the Board of Directors and who are employed by the Financial Market Guarantee System.

#### Members of the Board of Directors of the Financial Market Guarantee System in 2017

##### Chairman

##### **Dušan Hradil**

*Term of office: until 2021*  
Departmental Director at the Ministry of Finance of the Czech Republic

##### Vice-Chairman

##### **Karel Bauer**

*Term of office: until 2020*  
Director of a Czech National Bank section

##### Member

##### **Radek Urban**

*Term of office: until 2021*  
Director of a Czech National Bank Department

##### **Ondřej Landa**

*Term of office: until 2020*  
Deputy Head of the Legal Section at the Ministry of Finance of the Czech Republic

##### **Josef Tauber**

*Term of office: until 2019 (resigned as of 31 December 2017)*  
Advisor to the President of the Czech Banking Association

#### Members of the Management Board of the Financial Market Guarantee System in 2017

##### Chairperson

##### **Renáta Kadlecová**

Executive Director

##### Member

##### **Tomáš Hejduk**

Chief Legal Manager

##### **Roman Kahánek**

Finance Manager



## IV ACTIVITIES OF THE FINANCIAL MARKET GUARANTEE SYSTEM IN 2017

### Macroeconomic Developments in the Czech Republic in 2017, Macroeconomic and Regulatory Environment of the Insured Institutions

Economically, 2017 can be regarded as one of the most successful years of the last decade. It was also a year when significant monetary policy decisions were made by the Czech National Bank. As a whole, the financial sector once again demonstrated its performance and stability. However, signals began to emerge that systemic risks were present<sup>1</sup>.

In 2017, gross domestic product grew by 4.6%, which is an increase of 2.3 percentage points compared to 2016. Significant contributions to this growth were made by all demand components, in particular foreign demand and household consumption. Most sectors of the economy performed well, industry in particular, but also the services sector.

The Czech Republic's state budget closed last year with a deficit of CZK 6.2 billion, which was a negative difference of CZK 68 billion compared to 2016. Nevertheless, the final result was CZK 53.8 billion better than the deficit of CZK 60 billion approved by Parliament. The main factors were more effective tax collection and continuing economic growth accompanied by high employment and growing wages in the business and public sectors. The worse budget result compared to 2016 was mainly caused by a decline in income from the EU by CZK 81.9 billion<sup>2</sup>. The general rate of unemployment decreased by 1.2 percentage points to 2.4%, reaching a 9-year low. According to Eurostat data, in December 2017 the seasonally unadjusted unemployment rate was 2.3%, which was the lowest rate in the EU.

The average annual rate of inflation for 2017 was 2.5% (2016: 0.7%), while the inflation rate, expressed as the increase in the consumer price index compared to the same month of the previous year, was 2.4% in December 2017 (2016: 2%), having been above the Czech National Bank's inflation target as early

<sup>1</sup> "In an environment of eased lending standards and all-time low interest rates, a spiral is developing between the prices of residential properties and the loans for their purchase. These developments may become a source of systemic risks." Source: Official Information of the Czech National Bank of 13 June 2017

<sup>2</sup> Source: Ministry of Finance of the Czech Republic

as from January 2017. In response to these developments, in a statement made after its extraordinary meeting of 6 April 2017, the Bank Board declared that "the conditions for sustainable fulfilment of the 2% inflation target in the future have been met. In such a situation, continuation of the exchange rate commitment is no longer necessary from the perspective of fulfilment of the CNB's primary objective of price stability."<sup>3</sup>. This started a period of gradual appreciation of the Czech koruna, peaking at CZK 25.4275/EUR (23 November 2017)<sup>4</sup> and finishing the year at CZK 25.54/EUR.

On 3 August 2017, for the first time since 2008, the CNB increased its interest rates: the two-week repo rate by 20 basis points to 0.25% and the Lombard rate by 25 basis points to 0.50%<sup>5</sup>. The Czech National Bank thus responded to the signs of an overheating economy and to a situation where the economy de facto no longer needed the stimuli in the form of extremely low rates. It was clear that this was not the last step the CNB would take in the area of interest rates, which was confirmed both by market expectations and macroeconomic developments. Another increase of the CNB rates took place in early November 2017, when it was decided to raise the basic repo rate by 25 basis points to 0.50%. In addition, the Lombard rate was increased by 50 basis points to 1%<sup>6</sup>.

According to the data of the Czech National Bank for 2017, the Czech Republic's banking sector posted a net profit of CZK 75.9 billion, a slight year-on-year increase of 1.5%. Although the extraordinary income from the sale of bank shares in Visa Europe in 2016 could not be repeated, there was a continued decline in impairment losses (a year-on-year drop of 45%), while net interest income was up 2%. A contribution to this result was also made by the income from foreign exchange and interest rate hedging products sold to clients<sup>7</sup>. The average capital ratio of the sector at the end of 2017 stood at 19.25%

<sup>3</sup> The Bank Board's statement at the press conference after the extraordinary monetary policy meeting on 6 April 2017.

<sup>4</sup> Source: <https://www.patria.cz/kurzy/CZK/EUR/graf.html>

<sup>5</sup> The Bank Board's statement at the press conference after the monetary policy meeting on 3 August 2017.

<sup>6</sup> The Bank Board's statement at the press conference after the monetary policy meeting on 2 November 2017.

<sup>7</sup> Hedging the CZK exchange rate before termination of the exchange rate commitment and hedging interest rates once the CNB started increasing the rates.

(a year-on-year increase of 80 basis points). The solid condition of the banking sector was also confirmed by the results of the Czech National Bank stress tests based on financial data as of 30 September 2017<sup>8</sup>: “Although weakened by lower profits and in the Adverse Scenario hit by high credit losses, the banking sector as a whole remains stable in both scenarios and its aggregate capital ratio always stays above the regulatory minimum of 8% by a sufficient margin.”

However, 2017 also saw an increase in systemic risks related especially to the rising real estate prices, low interest rates resulting in easier access to housing loans, creating potential threat of real estate bubble bursting. In response to these developments, by its official statement of 13 July 2017<sup>9</sup>, the CNB issued recommendations concerning the management of risks related to the provision of mortgage loans. The recommendations especially focused on setting a threshold for the LTV ratio<sup>10</sup> and assessing the client’s ability to repay the loan and to cope with the increased financial burden. However, these recommendations are not legally enforceable. An amendment to the Act on Banks that would include the relevant provisions is yet to be passed by Parliament.<sup>11</sup>

In 2017, cooperative credit unions posted a loss of CZK 56.2 million. Compared to 2016, the loss of the sector increased by CZK 25 million. The average share of classified receivables in the overall loan portfolio was 20.3% at the end of last year which, compared to the value for the banking sector of 3.7%, continues to indicate a significant difference in the quality of assets of the two sectors. The average capital ratio was 19%. 2017 was the second year in which some of the provisions of the amendment to the Act on Credit Unions were in force for the whole of the year<sup>12</sup>; from 1 January 2018, the maximum aggregate exposure to economically connected persons or related parties is limited to CZK 30 million and the total assets of a cooperative credit union are capped at CZK 5 billion.

<sup>8</sup> CNB: *Stress tests of the banking sector in the CR, November 2017*  
<sup>9</sup> On this issue the CNB has also published *Supervisory Official Statement No. 1/2017*: [http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/dohled\\_financni\\_trh/vykon\\_dohledu/dohledove\\_benchmarky/download/dohledove\\_sdeleni\\_2017\\_01.pdf](http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/dohled_financni_trh/vykon_dohledu/dohledove_benchmarky/download/dohledove_sdeleni_2017_01.pdf)

<sup>10</sup> the size of a mortgage loan provided for the purchase of real estate property in relation to the estimated value of this property (loan to value)

<sup>11</sup> While the amendment was already discussed by the Parliament in 2017, the necessary procedure has not been finished because of the ending election term.

<sup>12</sup> At the beginning of 2015, Act No. 333/2014 Coll., amending Act No. 87/1995 Coll., on Credit Unions, was adopted. This Act came into force on 1 January 2015, with the exception of the provisions coming into force on 1 July 2015 and on 1 January 2018.

## Public Contracts

In 2017, the Financial Market Guarantee System completed a public contract entitled “Securing the Reimbursement of Compensation for Deposits”, which was commenced in 2016 in accordance with Act No. 137/2006 Coll., on Public Procurement, as amended. The goal of this public contract was to enter into a new framework agreement on the reimbursement/payout of compensation for deposits with the payout bank. Compared to the previous framework agreement which was concluded with two banks, of which one payout bank would be selected through a mini-tender procedure for disbursement purposes, the new framework agreement was entered into with one bank only. This new procedure will enable the Financial Market Guarantee System, inter alia, to speed up the preparations for the disbursement of compensation for deposits, because since 1 June 2016 it has been required that the potential disbursement of compensation for deposits must be commenced within 7 business days from the Decisive Day.

In addition, the Financial Market Guarantee System implemented or commenced a total of three public contracts according to the new Act No. 134/2016 Coll., on Public Contracts, with two of these contracts awarded as small-scale public contracts under Section 27 and Section 31 of the Act.

These were the following public contracts:

- ▶ Small-scale public contract: Performing an Audit for the Accounting Period of 2017–2019;
- ▶ Small-scale public contract: Performing an IT Audit;
- ▶ Above-the-threshold public contract: Framework Agreement on the Provision of Comprehensive Public Relations Services, which was commenced in 2017 and completed in 2018.

## Information Technologies and Security

In the field of IT, 2017 saw the completion of the transfer of the IT infrastructure to a new external administrator. A part of the IT administration remains to be performed internally. The IT monitoring contract has been narrowed; since 1 April 2017, regular monitoring has been performed internally.

2017 also saw the third and last phase of the IT audit. Following the recommendations of the IT audit, some system processes and configurations have been adjusted to increase security. Following the completion of the three-year cycle of IT



audits for the years 2015–2017, a new IT auditor has been selected for the subsequent three-year period of 2018–2020.

A test run has been executed for the new software for supporting and tracking the disbursement of deposit compensation (Evynal). The data from the original Povynal application has been converted to Evynal. At the same time, the Aplkrypt software has been replaced with encryption via PGP in line with the standard for cross-border disbursements. A program targeted at banks has been internally created to help banks carry out preliminary data testing in their own environments. Another program has been developed to provide enhanced control of addresses and companies according to the registers of the Czech National Bank and to collect statistical data that have been checked.

A test of the transfer and processing of client data of the Czech branch office of the Bank of China (Hungary), whose European headquarters are in Hungary, was performed together with the officials of Hungary's deposit insurance system. The Financial Market Guarantee System also provided test data to Slovakia's Deposit Protection Fund and tested a new communication channel for the exchange of client data with Poland.

In 2017, preparations began for performing a simulation of the Disaster Recovery process at an external location in the presence of all IT experts who are involved in the process. Last but not least, the hardware environment of the Financial Market Guarantee System was enhanced to provide increased protection against potential external attacks.

## International Cooperation

The Financial Market Guarantee System is a member of two international associations of similar organisations, namely the European Forum of Deposit Insurers (EFDI) and the International Association of Deposit Insurers (IADI). At the same time, the Financial Market Guarantee System also bilaterally cooperates with similar organisations, both in the EU and globally.

In 2017, within the framework of the European Forum of Deposit Insurers (EFDI), the officials of the Financial Market Guarantee System took part in meetings of EFDI committees and working groups, e.g. the EU Committee, the Communications and Public Relations Committee, the Banking Union Working Group, the Stress-Test Working Group, etc. In February 2017, the Financial Market Guarantee System organized a meeting of the Communications and Public

Relations Committee and the Cross-Border Payouts Working Sub-Group in Prague.

Just as in the previous year, there was an intensive cooperation within the European Forum of Deposit Insurers between deposit insurance systems from EU Member States, focusing primarily on regulating the conditions of cross-border compensation of claims from deposits, as implemented by Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes. Following a multilateral agreement on cross-border cooperation prepared by the European Forum of Deposit Insurers, which was joined by the Financial Market Guarantee System on 29 September 2016, negotiations were started on bilateral specifications of conditions amending and refining the above agreement with deposit insurance systems from Hungary, Poland and Slovakia.

In April 2017, Hungary's deposit insurance system and the Financial Market Guarantee System carried out a successful test of the transfer of client data of a branch office of a bank based in Hungary via the Eddies data exchange platform, created by Germany's Prüfungsverband deutscher Banken e.V. system.

In 2017, the activities of the International Association of Deposit Insurers continued to be focused, inter alia, on discussing new challenges for deposit insurers. The annual conference, which was held in Quebec in October, was devoted to the question of ensuring the readiness of systems to face future crises, financial inclusion, the possibility of further revisions and modifications of the basic principles of the effective operation of deposit insurance systems, the challenges of digitalisation in the field of deposit insurance, etc. Throughout the year, numerous other conferences and regional seminars took place.

In July 2017, Prague hosted another visit from representatives of the Korea Deposit Insurance Corporation (KDIC), who were introduced to the role and activities of the Financial Market Guarantee System.

Representatives of the Financial Market Guarantee System are also members of the resolution colleges of banking groups whose members also include banks operating in the Czech Republic. These resolution colleges were established in accordance with Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms. The main task of the resolution colleges is to create group

plans for crisis resolution and, in the event of a resolution situation, to exercise the appropriate decision-making powers.

### Investment Activities

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

Through long-term and short-term investment strategies, the investment policy determines the method of investing financial

reserves both by external investment managers and by the Financial Market Guarantee System itself. The long-term investment strategy is a long-term framework for composing and determining the risk positioning of individual portfolios. The short-term investment strategy defines, within the limits of the long-term investment strategy, the risk parameters of the benchmark, the parameters of the investment limits of the portfolio in performing individual transactions, the market risk conditions and other investment limits. Information on the management of the portfolios of the two funds in 2017 is contained in Chapters VI. Role and Activities in Deposit Insurance in 2017 and VII. Role and Activities in Crisis Resolution in 2017.

### Reporting Method

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

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

In accordance with Section 18 (1) (a) of Act No. 106/1999 Coll., on Free Access to Information, as amended, the Financial Market Guarantee System informs that in 2017 it received two requests for the provision of information according to the aforementioned Act. One request was fully granted, while the other was granted in one part and rejected in the other part (the latter part requested information on amounts paid by each institution to the Crisis Resolution Fund in 2016 or in 2017).

In accordance with Section 18 (1) (b) to (f) of Act No. 106/1999 Coll., on Free Access to Information, as amended, the Financial Market Guarantee System also states that there are no other circumstances relating to the application of this Act which it is obliged to disclose in accordance with Section 18 of this Act.

## VI ROLE AND ACTIVITIES IN DEPOSIT INSURANCE IN 2017

### Role in Deposit Insurance

The role of the Financial Market Guarantee System in deposit insurance is to help stabilize the Czech banking market and protect clients of banks and other insured financial institutions if these institutions are not able to repay their deposits. The Financial Market Guarantee System manages resources in the Deposit Insurance Fund that are used to disburse compensation for deposits of clients of a financial institution the Czech National Bank has declared as unable to meet its obligations to beneficiaries under statutory and contractual terms, or where a court has decided on bankruptcy or has made a different decision for reasons directly related to the financial situation of such institution, a consequence of which is the suspension of depositors' right to dispose of deposits covered by the insurance. The deposits of a single depositor at a single insured institution are fully insured for such a case up to an amount equal to the equivalent of EUR 100,000, while this limit is even increased in some cases precisely defined by legislation (cases of temporary high balances mentioned in following paragraph - Legislation). As of 31 December 2017, deposits at banks, building societies and cooperative credit unions that complied with the insurance conditions totalled CZK 3.5 trillion. A total of 32 financial institutions that held such insured deposits contributed CZK 940.65 million to the Deposit Insurance Fund in 2017.

### Legislation

Activity in deposit insurance is governed by Section 41 a to Section 41s of Act No. 21/1992 Coll., on Banks, as amended (the "Act on Banks"). Pursuant to the Act on Banks, all banks, branches of banks from other than Member States, building societies and cooperative credit unions (insured institutions) must participate in a deposit insurance system and contribute to the Deposit Insurance Fund within the scope stipulated by the Act.

Pursuant to Section 41 c of the Act on Banks, the insurance covers all receivables from deposits denominated in the Czech or a foreign currency, including interest, if the requirements for depositor identification pursuant to Section 41 c (3) of the Act on Banks are met, provided that such deposits were registered as a credit balance in accounts or bankbooks, or certified by a certificate of deposit, deposit note or other similar document.

Individuals are identified by their name, surname, address, and date of birth or birth certificate number, or by an identification number, while legal persons are identified by their business name or the name of the legal person, registered office, and domestic legal persons also by their identification number.

The insurance does not apply to receivables from deposits of banks, branches of banks from other Member States, savings banks, cooperative credit unions, investment firms, financial institutions, insurance companies, reinsurance companies, health insurance companies, state and territorial self-government units whose tax revenues under the Act on Budget Allocation of Revenue of Certain Taxes to Territorial Self-Government Units and to Certain State Funds are higher than the equivalent of EUR 500,000. Receivables from deposits that a bank is entitled to partially include in its own capital (subordinated debt) and receivables resulting from the final judgment relating to a crime intentionally committed to legalize the proceeds of crime, if not secured for the benefit of the crime victim, are also not insured.

Compensation for an insured receivable from a deposit from the Deposit Insurance Fund is disbursed to a beneficiary after the Financial Market Guarantee System receives written notification from the Czech National Bank on the inability of the insured institution to meet its obligations to beneficiaries under statutory and contractual terms, or after a court or a foreign court has decided on bankruptcy or has made a different decision for reasons directly related to the financial situation of an insured institution, of which a consequence is the suspension of depositors' right to dispose of deposits covered by the insurance (the Decisive Day).

Compensation is disbursed to both natural persons and legal persons and is paid out in the currency of the state in which the account in question is located. Since 31 December 2010, in accordance with the Act on Banks, the limit on the maximum disbursement of compensation to a beneficiary has been EUR 100,000. The deadline for commencing the disbursement of deposit compensation was reduced from the original 20 business days to 7 business days from the Decisive Day on 1 June 2016.

The amount of the contributions that insured institutions pay to the Deposit Insurance Fund is determined by the Czech

National Bank through a calculation that takes into consideration not only the volume of insured deposits, but also the level of risk assumed by the relevant insured institution. The amount of the contributions is not, since 1 January 2016, calculated from the volume of insured deposits at the insured institution (regardless of the maximum coverage limit), unlike before, but from the volume of covered deposits (i.e. deposits within the coverage limit of an amount equivalent to EUR 100,000).

Beginning with 2016, the frequency of contribution payment also changed. Insured institutions now pay contributions once a year, by 30 June of the given year.

The amendment to the Act on Banks effective from 1 January 2016 introduced the possibility of disbursing increased compensation for “temporary high balances” above the basic coverage limit in certain statutory cases (e.g. when the deposit concerns the sale of real estate used for residential purposes, settlement of the common property of spouses, inheritance, etc.). Increased compensation will be paid up to the amount by which the deposit concerned exceeds the amount calculated as the basic compensation (i.e. a maximum amount equivalent to EUR 100,000 for a single beneficiary at a single insured institution), but will not exceed an amount equivalent to an additional EUR 100,000 for a single beneficiary at a single insured institution. The condition is that the Decisive Day occurs within 3 months from the date such amount is credited to the account (or from the date when the eligible person could first dispose of the amount).

Since 1 January 2016, legislation has also simplified access to compensation for deposit receivables for clients from foreign banks from EU Member States operating in the Czech Republic through a branch. In the event of bankruptcy of a foreign bank based in an EU Member State and operating in the Czech Republic through a branch, the disbursement in the Czech Republic will be made by the Financial Market Guarantee System according to the instructions and to the account of the foreign deposit insurance scheme where the institution in question was insured. The same principle applies in the opposite case, meaning in the event of bankruptcy of a bank based in the Czech Republic that operates in the territory of another Member State through a branch, the local deposit insurance system will disburse compensation to clients in that Member State on the basis of instructions and to the account of the Financial Market Guarantee System.

## Testing Banking Data

In May and June and in October and November 2017, the Financial Market Guarantee System successfully verified the functionality of the system for disbursing deposit compensation as required by Section 41n (1) of the Act on Banks. In accordance with Decree of the Ministry of Finance of the Czech Republic No. 71/2011 Coll., on the Form, Structure and Manner of Management and Provision of Data that a Bank and a Branch of a Bank from Other Than a Member State are Obligated to Maintain and Must be Provided to the Financial Market Guarantee System, as amended with effect from 1 January 2017, the Financial Market Guarantee System successfully tested the client data of all 32 financial institutions (18 banks, 5 building societies and 9 cooperative credit unions) participating in the deposit insurance system.

## Disbursements of Compensation for Deposits

Resources from the Deposit Insurance Fund may be drawn, pursuant to Section 41a (5) of the Act on Banks, only for deposit compensation to beneficiaries and for debt repayments, or may be used to resolve crises at financial institutions under the conditions determined in Section 221 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended. Since its establishment, the Financial Market Guarantee System (formerly the Deposit Insurance Fund) has disbursed compensation for deposits twenty-two times, providing compensation to clients of thirteen banks and five cooperative credit unions, through eighteen regular and four additional disbursements totalling CZK 45.63 billion as of 31 December 2017.

During 2017, the Financial Market Guarantee System carried on with previously commenced disbursements of compensation for deposits. In 2017, the Financial Market Guarantee System disbursed to clients of Metropolitní spořitelní družstvo compensation of CZK 3.79 million, to clients of WPB Capital, spořitelní družstvo v likvidaci compensation of CZK 7.93 million, and to clients of ERB bank, a. s., compensation of CZK 249.77 million. The Financial Market Guarantee System disbursed total compensation for deposits of CZK 261.49 million in 2017. In 2017, upon lapse of the statutory three-year period, the Financial Market Guarantee System terminated the disbursement of compensation for deposits to clients of Metropolitní spořitelní družstvo and to clients of WPB Capital, spořitelní družstvo v likvidaci.

**Table 1 Compensation Disbursed from the Deposit Insurance Fund to 31 December 2017**  
(in CZK mil.)

Insured institution	Compensation for deposits disbursed	Date of commencement of compensation disbursement
Česká banka, a. s.*	948.61	11/12/1995
AB banka, a. s.	0.03	31/1/1996
První slezská banka, a. s.	217.48	15/5/1996
Podnikatelská banka, a. s.	1,073.54	17/6/1996
Realitbanka, a. s.	23.97	24/7/1996
Velkomoravská banka, a. s.	1,006.09	29/7/1996
Kreditní banka Plzeň, a. s.	580.30	23/9/1996
Pragobanka, a. s.**	414.13	1/12/1998
Universal banka, a. s.**	2,299.75	17/5/1999
Moravia banka, a. s.**	6,394.69	11/10/1999
Union banka, a. s.	12,366.79	17/5/2003
Plzeňská banka, a. s.	135.70	7/6/2003
Vojenská družstevní záložna	68.34	30/5/2011
UNIBON, spořitelní a úvěrní družstvo	1,805.96	23/7/2012
Úvěrní družstvo PDW, Praha	17.60	11/3/2013
Metropolitní spořitelní družstvo	12,014.98	27/1/2014
WPB Capital, spořitelní družstvo	2,780.23	14/10/2014
ERB bank, a. s.	3,481.76	20/10/2016
<b>Total</b>	<b>45,629.95</b>	

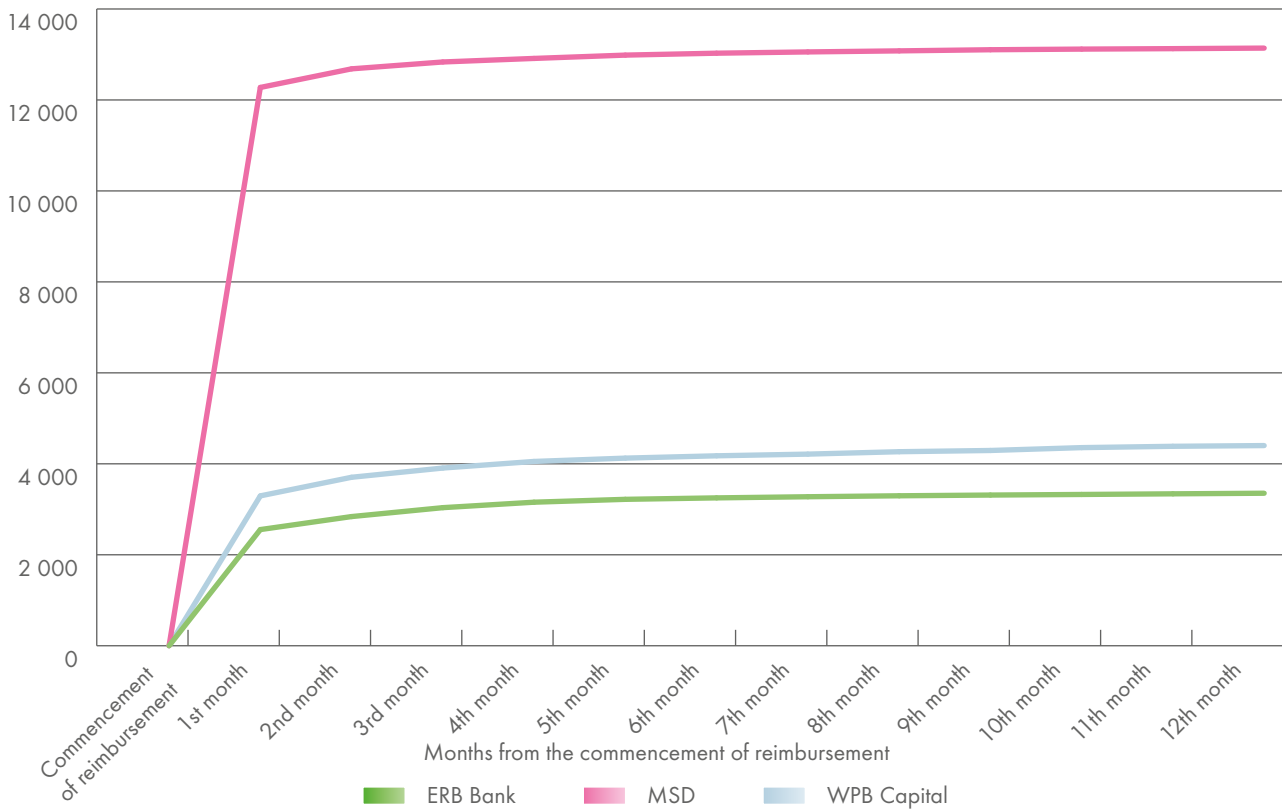
\* disbursement of additional compensation commenced on 8/6/1998

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

The Financial Market Guarantee System commenced disbursement of compensation for deposits to clients of ERB bank, a. s. within the shortened deadline of 7 business days. The course of the disbursement was, however, similar to that of the previous case of disbursement to clients of WPB Capital, spořitelní družstvo. Clients received the highest amount of compensation in the first and second months from

commencement (ERB bank 52%, WPB Capital, spořitelní družstvo 54% of all beneficiaries). Compared to the situation during the disbursement of compensation for Metropolitní spořitelní družstvo (the payment of 93% of beneficiaries in the first two months), this was however a slower start. This could be due to the significantly higher average balances per client at Metropolitní spořitelní družstvo.

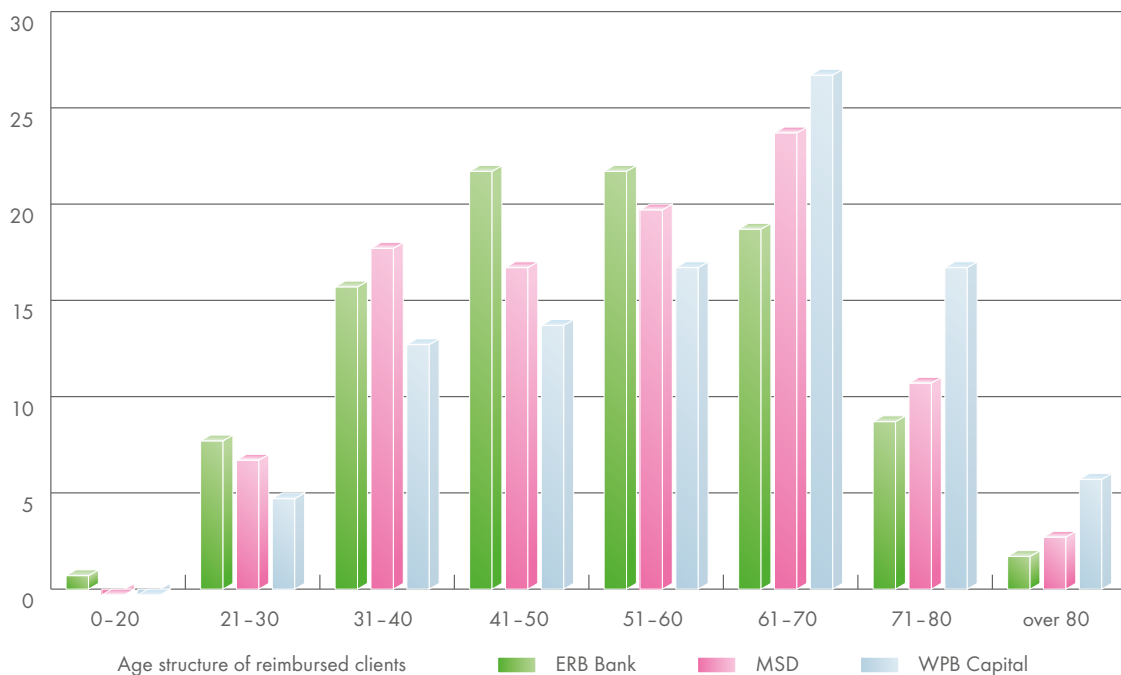
**Graph 1** Numbers of Paid Clients During the 1st Year of Compensation Disbursement (in Cumulative Terms)



It is also interesting to look at the age structure of the clients (natural persons) in the last three commenced compensation cases - namely the clients of Metropolitní spořitelní družstvo, WPB Capital, spořitelní družstvo and ERB bank, a. s. The greatest share of clients of the cooperative credit unions are

representatives of the older generation, aged between 61 and 70, while in the case of ERB bank, a. s. the largest share of clients are people of higher working age, meaning between 41 and 60.

**Graph 2** Age Structure of Clients of Disbursed Banks (%)





Since the establishment of the deposit insurance system in 1994, the limit on insured receivables from deposits has been adjusted several times. These changes are shown in the table below:

**Table 2** Development of Changes in the Limit on Deposit Insurance and in the Excess Paid by Beneficiaries

Amendment to the Act on Banks	Effective from	Compensation to deposit ratio	Maximum limit in CZK	Maximum limit in EUR
156/1994 Coll.	29/7/1994	80%	100,000	
16/1998 Coll.	6/2/1998	80%	300,000	
165/1998 Coll.	1/9/1998	90%	400,000	
319/2001 Coll.	7/9/2001	90%		25,000
433/2008 Coll.	15/12/2008	100%		50,000
156/2010 Coll.	31/12/2010	100%		100,000

Notes: The limit has been specified in euros since September 2001.

## Receivables Against Insured Institutions

Pursuant to Section 41h (2) of the Act on Banks, starting from the disbursement commencement date the Financial Market Guarantee System becomes a creditor of the insured institution that has failed to meet its commitments under statutory and contractual terms and conditions, to the extent of the rights of beneficiaries of the bank to receive payment from the Deposit Insurance Fund.

Of the total of thirteen banks and five cooperative credit unions paid out, bankruptcy proceedings have only been completed in eight cases, and liquidation has only been completed in one. In 2017, bankruptcy proceedings were completed in the case of Velkomoravská banka, a. s. Of the total amount of disbursed compensation of deposits, which reached CZK 45.6 billion as of 31 December 2017, CZK 43.6 billion of the Financial Market Guarantee System claims have been recognised in bankruptcy proceedings and liquidation processes. Claims arising from additionally disbursed compensation of deposits in respect of Pragobanka, a. s., Universal banka, a. s., and Moravia banka, a. s., were not recognised because when registering them the Financial Market Guarantee System (under

its original name Deposit Insurance Fund) neither met nor could have met the deadlines for registering the claims laid down by the Bankruptcy and Composition Act in force at that time. In fact, the amendment to the Act on Banks, under which the Financial Market Guarantee System (under its original name Deposit Insurance Fund) disbursed this additional compensation, was adopted after the expiry of the relevant deadlines. The Financial Market Guarantee System did not succeed with its request for the recognition of these claims in court proceedings.

The table below shows a summary of the Financial Market Guarantee System claims against the individual banks and cooperative credit unions as registered as of 31 December 2017 for the bankruptcy proceedings and the liquidation process of the disbursed banks and cooperative credit unions. Of the total of CZK 39,216.15 million in registered claims, a preliminary distribution schedule has been drawn up for four banks and two cooperative credit unions, with a total received payment for the Financial Market Guarantee System of CZK 11,499.36 million. The Financial Market Guarantee System currently has CZK 27,716.80 million in claims against banks.

**Table 3 Overview of Registered Receivables in Bankruptcy and Liquidation Proceedings as of 31 December 2017**  
(in CZK mil.)

Insured institution	Type of disbursement	Total amount of claim in bankruptcy/ liquidation	Returned to the Deposit Insurance Fund	Claim in bankruptcy/ liquidation
AB banka, a. s.	regular	0.23	0.02	0.21
Universal banka, a. s.	regular	1,862.64	693.44	1,169.20
Moravia banka, a. s.	regular	4,753.69	1,281.40	3,472.29
Union banka, a. s.	regular	12,416.54	4,966.62	7,449.92
UNIBON, spořitelní a úvěrní družstvo	regular	1,806.57	495.54	1,311.03
Úvěrní družstvo PDW, Praha	regular	20.97		20.97
Metropolitní spořitelní družstvo	regular	12,021.47	4,062.34	7,959.13
WPB Capital, spořitelní družstvo	regular	2,799.88		2,799.88
ERB banka, a. s.	regular	3,534.16		3,534.16
<b>Total</b>		<b>39,216.15</b>	<b>11,499.36</b>	<b>27,716.79</b>

As concerns bankruptcy proceedings completed by the end of 2017, judicial composition has already been carried out in the case of Podnikatelská banka, a. s., and composition as part of the closing schedule in the case of Pragobanka, a. s., Plzeňská banka, a. s., První slezská banka, a. s., Kreditní banka Plzeň, a. s., Česká banka, a. s., and Velkomoravská banka, a. s., and composition as part of the completed liquidation of Vojenská družstevní záložna, a. s. The bankruptcy proceedings

of Realitbanka, a. s. were terminated because of lack of assets. Thus, the Financial Market Guarantee System had no more registered claims against these eight banks and one cooperative credit union as of 31 December 2017. A summary of these claims in completed bankruptcy and liquidation proceedings, including revenues received and recovery rates achieved, is shown in the table below.

**Table 4 Summary of the Proceeds of Receivables against the Insured Institutions in Completed Bankruptcy and Liquidation Proceedings as of 31 December 2017**  
(in CZK mil.)

Insured institution	Type of disbursement	Total amount of claim	Returned to the Deposit Insurance Fund	Recovery rate (%)
Podnikatelská banka, a. s.	regular	1,075.53	548.52	51.00
Pragobanka, a. s.	regular + additional	348.20	184.33	52.94
Plzeňská banka, a. s.	regular	134.85	70.67*	52.41
Realitbanka, a. s.	regular	24.20	0.00	0.00
Vojenská družstevní záložna	regular	69.05	45.55	65.97
První slezská banka, a. s.	regular	217.50	11.54	5.30
Kreditní banka Plzeň, a. s.	regular	580.95	58.48	10.07
Česká banka, a. s.	regular	961.67	20.73	2.16
Velkomoravská banka, a. s.	regular	1,006.63	224.31	22.28
<b>Total</b>		<b>4,418.58</b>	<b>1,164.13</b>	<b>26.35</b>

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

Graph 3 Development of Recovery Ratio of Receivables Against Bankrupt Banks and Cooperative Credit Unions



### Contributions by Insured Institutions to the Deposit Insurance Fund

Since 2016, the method of calculation and collection of the annual contribution of insured institutions to the Deposit Insurance Fund has changed, with the Czech National Bank setting the amount of annual contributions for each institution depending on the amount of covered claims from deposits registered against the given insured institution and its overall risk profile. The insured institutions must now pay contributions to the Deposit Insurance Fund by 30 June of the relevant calendar year.

For 2017, the insured institutions paid contributions to the Deposit Insurance Fund totalling CZK 940.65 million. Due to the achievement of the target volume of resources in the Deposit Insurance Fund (0.8% of covered deposits), according to the legislation effective from 1 January 2016, the annual contribution is only 0.045% of covered deposits. Since its establishment in 1994, the Deposit Insurance Fund has received a total of CZK 56,037.17 million in contributions. The table below shows a summary of the contributions received by the Deposit Insurance Fund over the past 10 years.

**Table 5** Contributions by Insured Institutions to the Deposit Insurance Fund by year of contribution payment, for the past 10 years

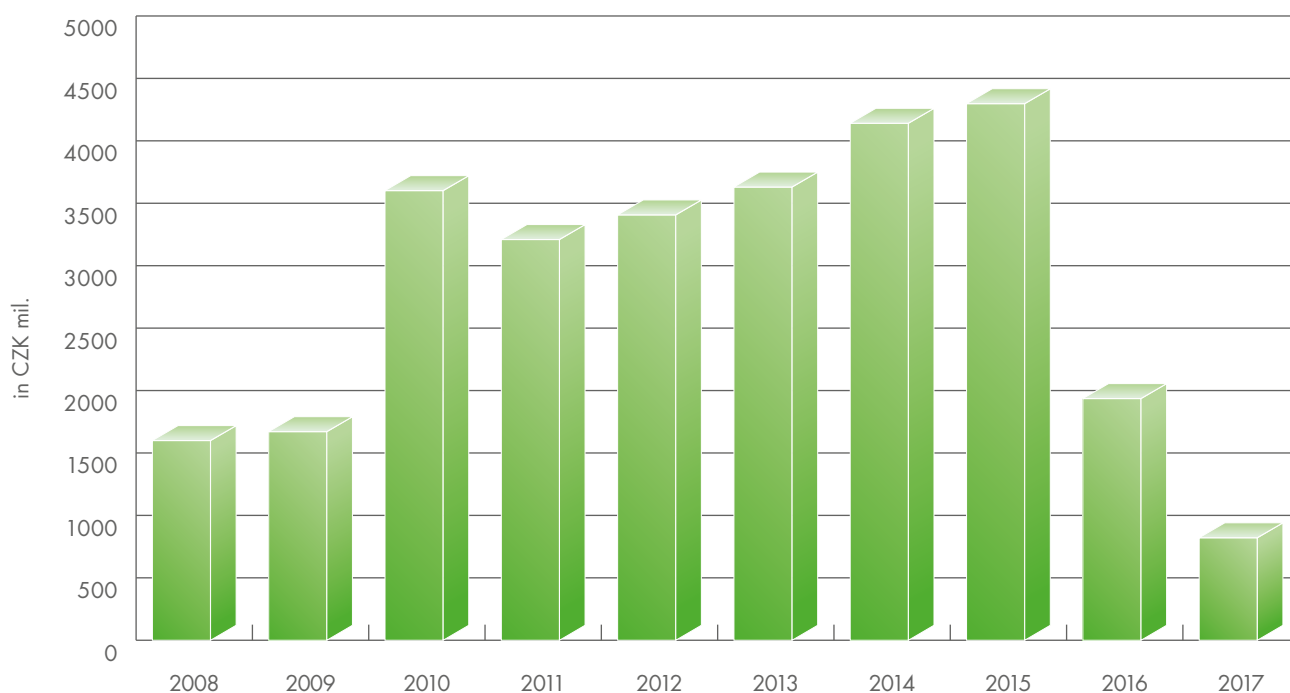
Contribution payment year	Amount in CZK mil.
2008	1,719.18
2009	1,790.58
2010*	3,721.03
2011	3,329.39
2012	3,526.62
2013	3,749.82
2014	4,260.52
2015**	4,417.47
2016***	2,055.54
2017	940.65
<b>Total</b>	<b>29,510.80</b>

\* In 2010, the periodicity of contribution payments changed from annual to quarterly from 1 July

\*\* In 2014, an advance payment of a contribution due in 01/2015 was made

\*\*\* Since 2016, the annual frequency of contributions to the Deposit Insurance Fund also contains the payment for the 4th quarter of 2015

**Graph 4** Contributions by Insured Institutions to the Deposit Insurance Fund, by year of payment, for the last 10 years



Graph 5 Number of Institutions Contributing to the Deposit Insurance Fund over the last 10 years



### Management of the Deposit Insurance Fund portfolio

The total volume of Deposit Insurance Fund financial reserves at the end of 2017 reached CZK 30,284.18 million. In 2017, the volume of Deposit Insurance Fund financial reserves increased by CZK 2,388.32 million with this increase being mainly driven by income from bankruptcies, which amounted to CZK 1,572.31 million in 2017. Another important source of revenue was contributions received from financial institutions, which totalled CZK 940.65 million, and revenues from financial reserves totalling CZK 133.99 million. As regards the ongoing disbursement of compensation of deposits in 2017, CZK 226.75 million was transferred from the Deposit Insurance Fund to the accounts of the bank in charge of the disbursement/payout.

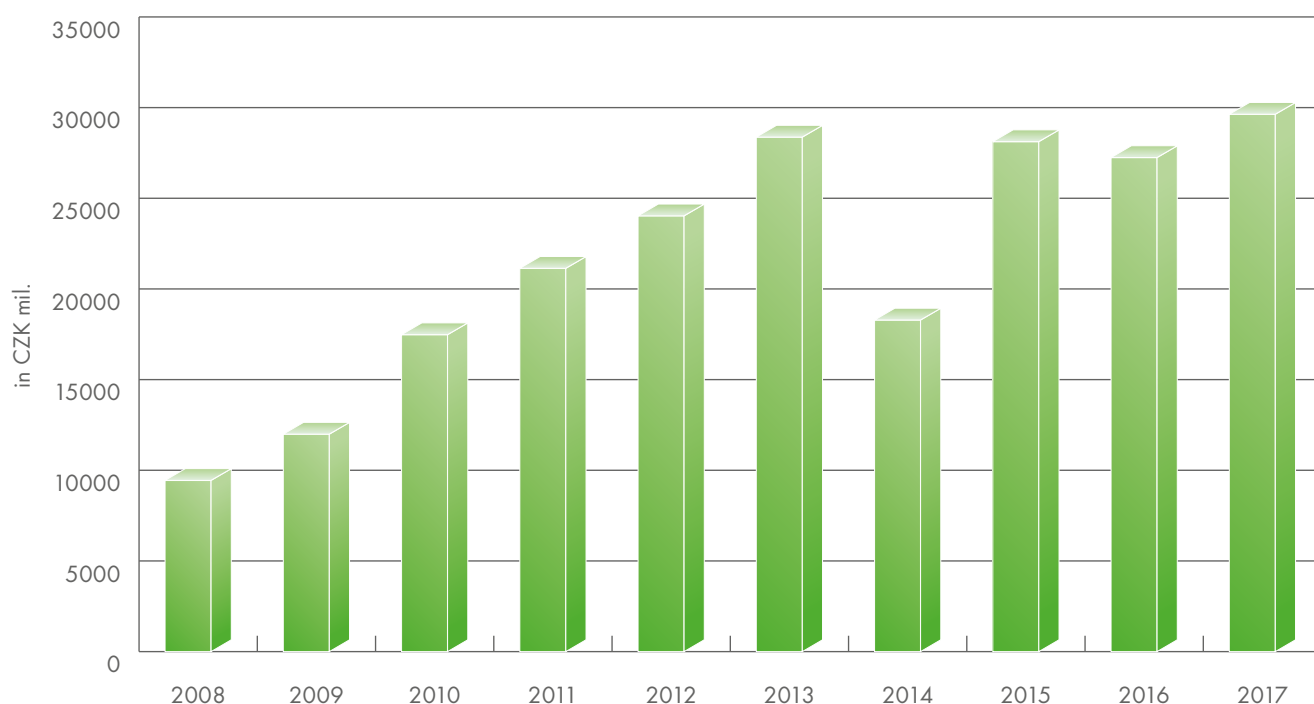
The financial reserves of the Deposit Insurance Fund were divided into three portfolios: the short-term portfolio managed directly by the Financial Market Guarantee System, the held-to-maturity securities portfolio (HTM portfolio) and the mark-to-market portfolio (MTM portfolio) managed by external investment managers.

Just as in the previous year, 2017 saw an increase in the volume of the short-term portfolio. This increase totalled CZK 3,653.06 million. The transfer to the short-term portfolio

involved both the current resources from other portfolios (sale of the MTM portfolio, due bonds and coupons of the HTM portfolio) and the new financial resources (received contributions, income from bankruptcies and liquidations, late payment interest and other income). At the end of 2017, the volume of the short-term portfolio reached CZK 27,118.95 million and its share of the total reserves of the Deposit Insurance Fund thus increased from 84% to 90%. The financial reserves managed in the short-term portfolio were invested in short-term repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or the Czech National Bank and deposits.

In 2017, the volume of the HTM portfolio was reduced by due bonds with a face value of CZK 385.60 million. The total value of the HTM portfolio reached CZK 3,165.22 million by the end of 2017, accounting for 10% of the financial reserves of the Deposit Insurance Fund. No new bonds were acquired into this portfolio during 2017 due to persistent very low bond yields and the funds from bonds that had matured were transferred along with due coupons to the short-term portfolio.

In 2016, it was decided to sell off the entire MTM portfolio. The sell-off was completed in January 2017. This decision was taken in view of the increasing risk of losses related to the rising yields on the bond market.

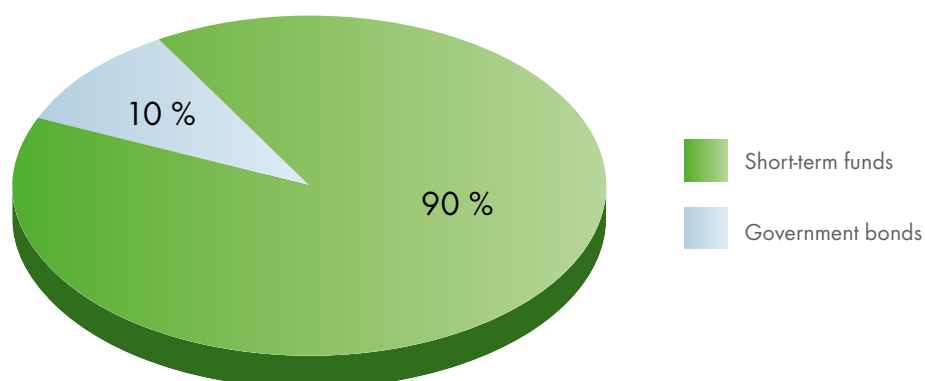
**Graph 6** Development in the Volume of Financial Reserves in the Deposit Insurance Fund 2008–2017

At the end of 2017, Deposit Insurance Fund financial reserves were composed of 90% short-term funds (deposits, buy/sell and repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic and the Czech National Bank) and 10% domestic government bonds issued by the Ministry of Finance of the Czech Republic.

**Table 6** Structure of Financial Reserves by Instrument, as of 31 December 2017

Type of instrument	Value in CZK mil.
Current accounts, term deposits, buy/sell and repo operations, receivables.*	27,118.96
Bonds:	3,165.22
of which: Treasury bills	0.00
Medium-term and long-term government bonds	3,165.22
<b>Total</b>	<b>30,284.18</b>

\*Receivables arising from financial transactions and unpaid coupons

**Graph 7** Structure of Financial Reserves by Instrument, as of 31 December 2017

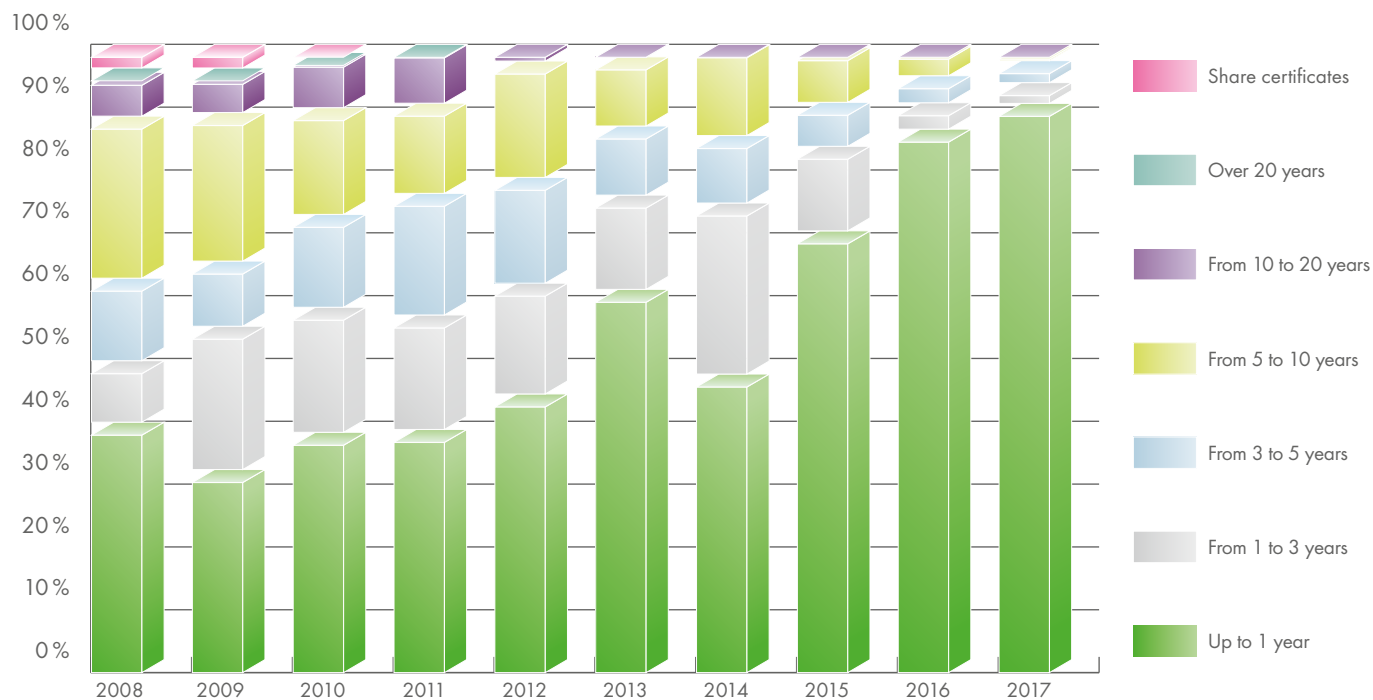


Instruments maturing within 1 year made up the largest share (90.6%) in the total volume of financial reserves, and the remaining portion of the portfolio is divided by maturity among instruments maturing in 1 to 3 years (3.3%), 3 to 5 years (3.5%), 5 to 10 years (2.3%) and 10 to 20 years (0.3%).

**Table 7** Structure of Financial Reserves by Maturity, as of 31 December 2017

Instrument maturity	Value in CZK mil.
Up to 1 year	27,378.66
From 1 to 3 years	1,010.32
From 3 to 5 years	1,070.25
From 5 to 10 years	748.25
From 10 to 20 years	76.70
<b>Total</b>	<b>30,284.18</b>

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



The total gross yield of Deposit Insurance Fund financial reserves in 2017 reached 0.48% p.a., i.e. approximately CZK 136.4 million.

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

**Table 8** Summary of Income and Expenditure for 1994–2017  
(in CZK mil.)

<b>I</b>	<b>Income</b>	<b>79,582.33</b>
	Contributions from banks and cooperative credit unions	57,213.45
	Income from judicial composition and bankruptcy proceedings	12,664.50
	Refunds of disbursed compensation	130.14
	Returned advance payments of non-disbursed compensation	75.95
	Interest received and other revenues	6,498.29
	– investment revenue	6,392.77
	– other financial revenue	105.52
	Loans received	3,000.00
<b>II</b>	<b>Expenditure</b>	<b>49,283.86</b>
	Compensation of deposits disbursements	45,797.01
	Operating costs	359.96
	Operating costs of the Crisis Resolution Fund <sup>1)</sup>	5.73
	Interest paid	121.16
	Loan repayments	3,000.00
<b>III</b>	<b>Difference between income and expenditure</b>	<b>30,298.47</b>

Note: 1) As there were no resources in the Operational Fund of the Crisis Resolution Fund, the operating costs of the Crisis Resolution Fund were paid from an advance provided from resources on the Deposit Insurance Fund. After approval of the 2017 financial statements, the 2017 investment income will be transferred to the Operational Fund of the Crisis Resolution Fund and advances provided by the Deposit Insurance Fund will be refunded.

## VII ROLE AND ACTIVITIES IN CRISIS RESOLUTION IN 2017

### Role of the Crisis Resolution Fund

The establishment of the Crisis Resolution Fund has brought, since 1 January 2016, the possibility of resolving problem situations at financial institutions through other instruments than only the disbursement of compensation of deposits. The purpose of the Crisis Resolution Fund is to have available resources that can be used in the event of a threat to the stability of a financial institution so that it is not necessary to terminate its existence and initiate the disbursement of compensation of deposits to its clients. The Czech National Bank, as the resolution authority decides on the use of these resources. This measure can only be applied if the institution is failing or if its failure can reasonably be anticipated, there are no other supervisory or private sector measures that would prevent the institution's failure in the short term, and the resolution of the crisis is in the public interest. The objective is to strengthen the stability of the financial sector, minimize costs and damage and, if possible, eliminate the use of public funds.

### Legislation

The activity of the Financial Market Guarantee System in crisis resolution is governed by Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended (the "Act on Recovery Procedures"). This Act transposed into the Czech legal system Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms. A second important piece of legislation at European level is Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

The Act on Recovery Procedures governs:

- ▶ restructuring tools;
- ▶ crisis resolution planning;
- ▶ the status and powers of the Czech National Bank;
- ▶ procedures in the event of failure of an obliged entity or group failure;
- ▶ crisis resolution financing, and
- ▶ cross-border cooperation and the procedures applied during it.

This Act imposes a duty on the Financial Market Guarantee System through its statute to establish the Crisis Resolution Fund in order to provide a financing arrangement for crisis resolution. The management of the resources of the Crisis Resolution Fund is governed, in particular, by Section 209 and subsequent of the Act on Recovery Procedures.

The Crisis Resolution Fund is, by law, composed of two funds:

- ▶ The Contribution Fund, which consists of regular or extraordinary contributions from financial institutions, resources raised from the market, loans within the framework of mechanisms for financing crisis resolution, or state subsidies or assistance and other revenues based on decisions by the Czech National Bank;
- ▶ The Operational Fund, which consists mainly of yields from the investment of the resources on the Crisis Resolution Fund and the proceeds of completed liquidation and insolvency proceedings.

Contributions are made to the Contribution Fund of the Crisis Resolution Fund not only by financial institutions already involved in the deposit insurance system (banks, branches of banks from other than Member States, cooperative credit unions and building societies), but also by some investment firms.

Resources from the Contribution Fund of the Crisis Resolution Fund can be used on the basis of a decision by the Czech National Bank only for statutory purposes if any of the contributing institutions gets into difficulty and it is in the public interest to avoid a situation where it would be necessary to terminate the activity of such institution and initiate the disbursement of compensation of deposits to its clients. These resources may thus be used, for example, to provide security for the institution's assets and debts, to provide a loan, to buy the assets of the institution, etc., in accordance with Section 212 of the Act on Recovery Procedures, which may contribute to resolving the financial situation of such institution.

### Contributions to the Crisis Resolution Fund

The amount of contributions to the Crisis Resolution Fund is determined by the Czech National Bank following consultation with the Financial Market Guarantee System, in accordance

with Commission Delegated Regulation (EU) 2015/63 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements. The Czech National Bank is obliged to take into account that the target volume of assets in the Contribution Fund of the Crisis Resolution Fund must reach 1% of the total volume of covered deposit receivables by 31 December 2024. The contribution for 2017 was set by the Czech National Bank in the amount of CZK 3.025 billion. The objective is that the Crisis Resolution Fund will accumulate approximately CZK 27 billion in its Contribution Fund by 31 December 2024.

Institutions are obliged to pay contributions to the Crisis Resolution Fund based on the decision of the Czech National Bank regarding the amount of the specific contribution, issued by the Czech National Bank to the relevant financial institution by 1 May each year.

## Management of the Crisis Resolution Fund Portfolio

2017 was the second year of existence of the Crisis Resolution Fund, which was established under the Act on Recovery Procedures. The total amount of contributions received from financial institutions to this fund in 2017 was just under CZK 3.025 billion. Thus, this amount doubled the volume of Crisis Resolution Fund financial reserves as of 31 December 2017. Over the year, these financial reserves were invested within the short-term portfolio in repo operations with CNB bills with a 14-day maturity period.

The performance of the Crisis Resolution Fund was positively influenced by two hikes of the two-week repo rate of the Czech National Bank by 25 basis points in August and November 2017. The total gross yield of Crisis Resolution Fund financial reserves of 2017 was 0.13% p.a., i.e. approximately CZK 6.5 million.

## Main Cash Flows of the Crisis Resolution Fund

**Table 9 Summary of Income and Expenditure for 2016–2017**  
(in CZK mil.)

<b>I</b>	<b>Income</b>	<b>5,990.29</b>
	Contributions from financial institutions	5,983.80
	Interest received and other revenues	6.49
	- investment revenue	6.49
	- other financial revenue	0.00
<b>II</b>	<b>Expenditure</b>	<b>0.00</b>
	Operating costs <sup>1)</sup>	0.00
<b>III</b>	<b>Difference between income and expenditure</b>	<b>5,990.29</b>

Note: 1) As there were no resources in the Operational Fund of the Crisis Resolution Fund, the operating costs of the Crisis Resolution Fund were paid from an advance provided from resources on the Deposit Insurance Fund. After approval of the 2017 financial statements, the 2017 investment income will be transferred to the Operational Fund of the Crisis Resolution Fund and advances provided by the Deposit Insurance Fund will be refunded.

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



## ***Independent auditor's report***

### **to the Board of Directors of Garanční systém finančního trhu**

#### *Opinion*

We have audited the accompanying financial statements of Garanční systém finančního trhu, with its registered office at Týn 639/1, Praha ("the Company") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017 and the income statement for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance for the year then ended in accordance with Czech accounting legislation.

#### *Basis for Opinion*

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

#### *Other Information*

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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](http://www.pwc.com/cz)*

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**The Board of Directors of Garanční systém finančního trhu  
Independent auditor's report**

In preparing the financial statements, the Statutory Body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.
- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body and the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13 June 2018

  
represented by partner



Petr Kříž  
Statutory Auditor, Evidence No. 1140

**Note**

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

# FINANCIAL STATEMENTS

## THE FINANCIAL MARKET GUARANTEE SYSTEM

Registered office:	Týn 639/1, 110 00 Prague 1, Staré Město
Identification number:	49710362
Date of financial statements:	31/12/2017
Date of preparation of financial statements:	13/6/2018

### Balance Sheet as of 31 December 2017 (CZK '000)

ASSETS	As of 1 January 2017	As of 31 December 2017
<b>A. Total fixed assets</b>	<b>3,181,065</b>	<b>2,962,011</b>
<b>I. Intangible fixed assets – software</b>	<b>4,045</b>	<b>2,766</b>
<b>II. Tangible fixed assets</b>	<b>1,543</b>	<b>1,844</b>
Works of art, objects and collections	46	217
Tangible assets and their sets	1,497	1,627
<b>III. Long-term investments – bonds, debentures and similar securities held to maturity</b>	<b>3,179,550</b>	<b>2,960,260</b>
<b>IV. Total accumulated depreciation and amortisation of fixed assets</b>	<b>-4,074</b>	<b>-2,858</b>
Accumulated amortisation of software	-2,885	-1,456
Accumulated depreciation of machinery and equipment	-1,189	-1,402
<b>B. Total current assets</b>	<b>57,764,613</b>	<b>61,046,302</b>
<b>II. Total receivables</b>	<b>30,090,005</b>	<b>27,731,728</b>
Operating advances paid	11	3
Other receivables	30,089,994	27,731,725
<b>III. Total current financial assets</b>	<b>27,674,345</b>	<b>33,314,291</b>
Cash in hand	47	28
Stamps and vouchers	115	54
Financial resources on accounts	26,518,738	33,109,245
Debt securities held for trading	758,450	0
Other securities	396,995	204,964
<b>IV. Total other assets</b>	<b>263</b>	<b>283</b>
Prepaid expenses	263	283
<b>Total assets</b>	<b>60,945,678</b>	<b>64,008,314</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

Financial Statements

Year ended 31 December 2017

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2017</b>	<b>As of 31 December 2017</b>
<b>A. Total equity</b>	<b>60,643,968</b>	<b>63,960,156</b>
<b>I. Equity – funds</b>	<b>57,221,981</b>	<b>60,427,326</b>
<b>II. Total profit/loss</b>	<b>3,421,987</b>	<b>3,532,831</b>
Profit/loss account	112,451	110,844
Retained earnings	3,309,536	3,421,987
<b>B. Total liabilities</b>	<b>301,710</b>	<b>48,157</b>
<b>III. Total current payables</b>	<b>301,710</b>	<b>48,157</b>
Payables to suppliers	607	909
Employees	1,896	1,652
Other payables to employees	4	5
Payables to social security and public health insurance institutions	821	667
Other direct tax liabilities	572	466
Other payables	295,669	44,176
Estimated payables	2,141	282
<b>Total equity and liabilities</b>	<b>60,945,678</b>	<b>64,008,314</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2017

Profit and Loss Account for the year ended 31 December 2017  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I. Consumed purchases and purchased services</b>	<b>14,722</b>	<b>0</b>	<b>14,722</b>
1. Consumption of material	493	0	493
3. Repairs and maintenance	25	0	25
4. Travel expenses	1,290	0	1,290
5. Representation expenses	160	0	160
6. Other services	12,754	0	12,754
<b>III. Personnel costs</b>	<b>16,009</b>	<b>0</b>	<b>16,009</b>
10. Wages and salaries	11,777	0	11,777
11. Statutory social security insurance	3,656	0	3,656
13. Statutory social expenses	371	0	371
14. Other social expenses	205	0	205
<b>IV. Taxes and fees</b>	<b>32</b>	<b>0</b>	<b>32</b>
<b>V. Other expenses</b>	<b>2,547</b>	<b>0</b>	<b>2,547</b>
19. Foreign exchange losses	12	0	12
22. Sundry other expenses	2,535	0	2,535
<b>VI. Depreciation and assets sold, creation and use of provisions and adjustments</b>	<b>759,573</b>	<b>0</b>	<b>759,573</b>
23. Amortisation of intangible and depreciation of tangible fixed assets	666	0	666
25. Securities and interests sold	758,907	0	758,907
<b>Total expenses</b>	<b>792,883</b>	<b>0</b>	<b>792,883</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2017

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV. Other revenues</b>	<b>146,363</b>	<b>0</b>	<b>146,363</b>
5. Contractual penalties, late payment interest, other fines and penalties	31	0	31
7. Interest revenue	143,469	0	143,469
8. Foreign exchange gains	21	0	21
10. Sundry other revenues	2,842	0	2,842
<b>V. Revenues from assets sold</b>	<b>757,364</b>	<b>0</b>	<b>757,364</b>
12. Revenues from securities and interests sold	757,364	0	757,364
<b>Total revenues</b>	<b>903,727</b>	<b>0</b>	<b>903,727</b>
<b>C. Profit/loss before tax</b>	<b>110,844</b>	<b>0</b>	<b>110,844</b>
<b>D. Profit/loss after tax</b>	<b>110,844</b>	<b>0</b>	<b>110,844</b>

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Financial Market Guarantee System performed only the main activities for which it was established, i.e. activities in deposit insurance (including the management of the Deposit Insurance Fund) and in the management of the Crisis Resolution Fund. The Financial Market Guarantee System did not perform any economic activity within the meaning of Section 5a (2) of the Decree (additional, secondary, business or other activity outside the main activity).

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

## 1 General Information

The Financial Market Guarantee System is a legal person governed by public law, which was originally called the Deposit Insurance Fund, established by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

The identification number of the Financial Market Guarantee System is 497 10 362. Based on Act No. 586/1992 Coll., on Income Taxes, as amended, the income of the Financial Market Guarantee System is exempt from income tax. The registered office of the Financial Market Guarantee System is Prague 1, Týn 639/1.

### Membership of the Board of Directors in 2017 was as follows:

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

As of 31 December 2017, Mr. Josef Tauber terminated his membership in the Board of Directors. He was replaced by Mr. Vladimír Staňura, with effect from 29 January 2018.

Under legislation effective from 1 January 2016, the Management Board of the Financial Market Guarantee System is its statutory body. The Board of Directors remains the supreme body of the Financial Market Guarantee System with the powers listed in Section 201 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended.

### Membership of the Management Board in 2017 was as follows:

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

The mission of the Financial Market Guarantee System is the operation of the deposit insurance system in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq., Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq., Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended). By performing these activities, the Financial Market Guarantee System contributes to the stability of the financial market.



## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

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

With effect from 1 January 2016, based on Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution (the "AFCPR"), the Deposit Insurance Fund was transformed into the Financial Market Guarantee System. This was not a "transformation" of a legal person within the meaning of Section 174 et seq. of Act No. 89/2012 Coll., the Civil Code (i.e. in the sense of a merger, division or change of legal form), but only a "change" consisting in particular of: a) a name change (Section 252 of the AFCPR), b) a change to the organisational structure (Section 199 et seq. of the AFCPR - a change to the statutory body, a listing of the powers of the Board of Directors, etc. and c) an extension of the scope of activity (Section 198 of the AFCPR, on the management of assets in the Crisis Resolution Fund). We thus cannot speak of legal succession because there has been no transition of rights and obligations, and the legal person (holder of rights and obligations) has been retained (the same identification number).

#### 1.2 Managed Funds (Nonentities)

In view of the retention of continuity of legal personality (the original Deposit Insurance Fund has changed into the Financial Market Guarantee System), while the funds managed by the Financial Market Guarantee System (the Deposit Insurance Fund and the Crisis Resolution Fund) have no legal personality (Section 198 (4) of the AFCPR), it is necessary to differentiate the Deposit Insurance Fund until 31 December 2015 (legal personality, change to the Financial Market Guarantee System) and the Deposit Insurance Fund from 1 January 2016 (nonentity made up of part of the assets of the Financial Market Guarantee System).

While the new nonentity Deposit Insurance Fund was de facto established by law on 1 January 2016 (see Section 254 of the AFCPR on allocation of assets and debts to the Deposit Insurance Fund), the Crisis Resolution Fund was established on the basis of Section 209 (1) of the AFCPR through the Statute of the Financial Market Guarantee System on 12 January 2016 (Article 5 of the Statute of the Financial Market Guarantee System).

#### 1.3 Assets Placed in Funds

Section 198 (2) of the AFCPR states that the Financial Market Guarantee System manages assets created by the Deposit Insurance Fund, the Crisis Resolution Fund and other assets of the Financial Market Guarantee System. From the legal point of view, therefore, they are always assets of the Financial Market Guarantee System, located a) in the Deposit Insurance Fund, b) in the Crisis Resolution Fund, c) outside of both funds (i.e. not a model of an investment company - mutual fund, when the assets in the mutual fund are not the assets of the investment company).

From the accounting point of view, the Financial Market Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund are three separate accounting units, while the assets constituted by the Deposit Insurance Fund, the assets constituted by the Crisis Resolution Fund and other assets of the Financial Market Guarantee System are kept separately in asset and accounting terms (Section 205 and Article 198 (2) of the AFCPR). Each of the accounting units has its own financial statements and their preparation is ensured by the Financial Market Guarantee System.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

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### Financial Statements

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Year ended 31 December 2017

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While as of the date of establishment of the Crisis Resolution Fund there were no assets in it (its opening balance did not need to be audited), as of 1 January 2016 existing assets and debts of the original Deposit Insurance Fund related to the insurance of deposit receivables (Section 254 of the AFCPR) were allocated to the Deposit Insurance Fund, in particular:

- bank contributions under the Deposit Guarantee System,
- receivables of beneficiaries resulting from compensation of insured receivables from deposits,
- proceeds from investing the resources of the original Deposit Insurance Fund,
- assets and debts in connection with the procurement of the necessary resources on the market, subsidies, repayable financial assistance (as of 1 January 2016 there were no such debts),
- receivables of the original Deposit Insurance Fund,
- resources on the bank accounts of the original Deposit Insurance Fund to ensure that the opening balance sheet of the new Deposit Insurance Fund is balanced.

For this reason, the opening balance sheet of the Deposit Insurance Fund was subject to verification by an auditor. There were no other assets or debts than those listed above in the original Deposit Insurance Fund.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

## 2 Accounting Policies

### 2.1 Bookkeeping

The Financial Market Guarantee System provides accounting for its own management and the management of the Deposit Insurance Fund and the Crisis Resolution Fund (the Deposit Insurance Fund and the Crisis Resolution Fund collectively the "Funds") pursuant to Act No. 563/1991 Coll., on Accounting, as amended (the "Act on Accounting"), Implementing Decree No. 504/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units whose main business activity is not commercial business, if they use double-entry bookkeeping, as amended (the "Decree") and other legislation governing bookkeeping, and in accordance with the accounting methods specified therein.

The Financial Market Guarantee System and the Funds managed by it are separate accounting units ("accounting units"). The Financial Market Guarantee System records the status and movement of assets and liabilities, costs and revenues, and profit or loss separately from the subject matter of its and other Funds' accounts. The bookkeeping for the subject of accounting is performed in ledgers kept separately for each accounting unit in a way that allows for the preparation of financial statements for each accounting unit.

The Financial Market Guarantee System provides for the verification of the Financial Market Guarantee System annual report (which describes the facts that are also reflected in the financial statements of the Financial Market Guarantee System and the individual managed Funds, and which is in all material respects consistent with the relevant financial statements of the Financial Market Guarantee System and the individual managed Funds) and the preparation of an auditor's report on the verification of the Financial Market Guarantee System annual report.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System performs the management of the Funds and that the Financial Market Guarantee System is entitled and bound by the legal relationships. From the point of view of the accounting, all the accounting documents (as well as the electronic registry service) will be recorded in the Financial Market Guarantee System.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System manages the Funds and that all activity is tied to the management of the Funds. In terms of the bookkeeping, all expenses, revenues, costs, income, receivables and payables are items for the individual Funds. The Financial Market Guarantee System, as a legal person, maintains all these accounting cases in its accounts and materially assigns them to the individual Funds.

### 2.2 System of Accounting and Retention of Accounting Documents

The accounting units that maintain full accounts use double-entry accounting for the status and movement of property and other assets, liabilities, including debts and other liabilities, costs and revenues, and profit or loss.

The accounting units use double-entry accounts for facts that are the subject of their accounts until the period to which they relate in time and in fact.

The Financial Market Guarantee System accounting period is the calendar year.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

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### Financial Statements

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Year ended 31 December 2017

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The accounting units have kept accounts since 1 January 2016, with the exception of the Crisis Resolution Fund, which has been keeping accounts since its establishment on 12 January 2016.

Accounting units keep one set of accounts per accounting unit as a whole.

The accounting units maintain accounts as a set of accounting records using technical means, data carriers and software. An accounting record is data that are a record of all the facts relating to the maintenance of the accounts. Accounting units must record every fact relating to the maintenance of accounts exclusively through accounting records. Individual accounting records may be grouped into aggregate accounting records; such accounting records are in particular accounting documents, accounting entries, ledgers, the depreciation plan, inventory listings, accounting plans, financial statements and the annual report.

The accounting units maintain their accounts in the Czech currency.

The accounting units maintain their accounts in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled.

The accounting units capture the facts that are the subject of the accounts ("accounting cases") through accounting documents.

The accounting units record accounting cases in ledgers ("accounting entries") only on the basis of probative accounting records.

The accounting units keep accounts in such a way that the financial statements prepared on their basis are comprehensible and provide a true and fair view of the accounting unit's accounts and financial situation.

The accounting units keep accounts in a correct, complete, probative, comprehensible and clear manner that ensures the continuity of the accounting records.

The accounting units keep their accounts in a way that ensures the continuity of the accounting records so that the accounting unit complies with its obligations relating to their retention under the Act on Accounting.

The Financial Market Guarantee System assigns another person to process the accounts of the accounting units on the basis of a contractual relationship in accordance with Section 5 of the Act on Accounting.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

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### Financial Statements

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Year ended 31 December 2017

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### 2.3 Scope of Bookkeeping, Accounting Documents, Accounting Records and Ledgers

The accounting units maintain their accounts in full scope.

The accounting documents are probative accounting records that must include:

- identification of the accounting document,
- the content of the accounting case and its participants,
- the monetary amount or information on the price per unit of measurement and an indication of the quantity,
- the moment of preparation of the accounting document,
- the moment of performance of the accounting case, if not identical to the moment of the preparation of the accounting document,
- the signature record of the person responsible for the accounting case and the signature record of the person responsible for its posting.

The accounting units prepare accounting documents without undue delay.

The accounting entries are accounting records in ledgers.

The accounting units account in the following ledgers:

- in the journal(s) in which the accounting entries are organized in terms of time (chronologically) and which show the accounting of all the accounting cases in the accounting period,
- in the main ledger in which the accounting entries are organized on a factual (systematic) basis,
- in the books of analytical accounts detailing the accounting records of the main ledger.

### 2.4 Plan of Accounts

The accounting units prepare a plan of accounts for each accounting period within the meaning of the guideline chart of accounts, accounting methods, organization and marking of the items of financial statements, and the content definition of those items determined in the Decree. During the accounting period, an accounting unit may supplement the plan of accounts.

The amounts in the analytical accounts books must correspond to the relevant aggregate cash amounts of the turnover or balance of the synthetic accounts to which these accounts are connected.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

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

Before the preparation of the financial statements, the accounting unit performs an inventory.

The financial statements are an inseparable whole and comprise:

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

The Financial Market Guarantee System prepares an annual report.

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

## 2.6 Storage of Accounting Documents

The Executive Director of the Financial Market Guarantee System is responsible for the organization of the storage of accounting documents, and may designate the person responsible for the execution of the storage of the accounting documents. The archiving of accounting documents is performed according to the Archiving and Shredding Rules.

## 2.7 Accounting Methodological Guidelines

The accounting units, to comply with Directive No. 22 - Bookkeeping, in accordance with the Accounting Act and other statutory regulations, prepare accounting methodological guidelines.

The accounting methodological guidelines are approved by the Financial Market Guarantee System Board of Directors.

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

## 2.8 Assignment Procedures for Accounting Cases

### 2.8.1 Accounting Cases Directly Assignable to the Funds

2.8.1.1 These cases are charged by the Financial Market Guarantee System and directly assigned - posted - to the relevant Fund accounts.

2.8.1.2 These cases include, in particular, received contributions to the Funds and the investment of the financial reserves. Individual bank accounts are set up for the allocation of the contributions to the individual Funds. These accounts may also be used for investing assets in the individual Funds, unless separate bank accounts are established for this purpose. Accounting cases directly assignable to the Funds also include other accounting cases on these bank accounts, such as interest accrued or fees related to the management of these accounts.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

#### 2.8.2 Other Accounting Cases (for example, received invoices for rent, legal services, accounting, wages, depreciation, etc.)

2.8.2.1 Directly assignable accounting documents for individual funds that arise from invoicing (e.g. portfolio management fees), or where there is another possibility of direct assignment (for example, an annex with a breakdown of the purpose of legal representation by Fund for legal services). The Financial Market Guarantee System attributes and charges to the relevant Fund accounts according to the supporting criteria established from the accounting case.

2.8.2.2 In the event common accounting cases cannot be assigned to individual Funds under paragraph 2.8.2.1, this assignment will be made at a ratio determined as follows:

- a) To calculate the ratio of costs for managing the individual Funds, the cost-to-work ratio method is used for each Fund in the staff statements of work. Staff at the Financial Market Guarantee System prepare statements of work on a monthly basis.
- b) The ratio of the activities performed for each Fund will be calculated as of 31 December.
- c) The annual ratio calculated under point 2.8.2.2 (b) will be used to account for the advance ratio and will be balanced according to the actual status as of 31 December of the current year.
- d) The annual ratio calculated under point 2.8.2.2 (b) will be used to determine the advance ratio for the following accounting period. This rule was applied for the first time in the 2017 accounting period.

2.8.3 The Financial Market Guarantee System proceeds with the assignment of expenses similarly to in paragraphs 2.8.1 and 2.8.2, for example when paying for the purchase of technical equipment, when paying an advance for a future performance, when calculating anticipated costs or income, when paying a deposit or similar performances.

#### 2.9 Providing Advances from the Deposit Insurance Fund and the Crisis Resolution Fund for the Operating Costs of the Financial Market Guarantee System

The Financial Market Guarantee System incurs expenditure connected with the management of the Deposit Insurance Fund and the Crisis Resolution Fund. Expenditure related to the management of the Crisis Resolution Fund is covered from the Operational Fund of the Crisis Resolution Fund.

Expenditure related to the management of the Deposit Insurance Fund is covered from operating income, primarily from the investment income of the Deposit Insurance Fund.

The Financial Market Guarantee System shall establish the budget of all accounting units prior to the start of the current year, and at the same time determine the amount of advances to be provided from the Deposit Insurance Fund and the Crisis Resolution Fund to cover operating costs. Advances can be provided in instalments.

After the end of the accounting period, advances are settled with actual costs.

Receivables and payables between the Deposit Insurance Fund and the Crisis Resolution Fund from the title of the payment of operating costs are subject to an inventory during the preparation of the financial statements.



## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

#### 2.10 Basic Principles for Preparing the Financial Statements

The financial statements are compiled in accordance with accounting regulations applicable in the Czech Republic and with Czech Accounting Standards for units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for securities held for trading, which are recognised at fair value, and securities held to maturity, which are valued at amortised costs. The financial statements are compiled on the assumption that the unit is able to continue as a going concern. The amounts in the financial statements and in the notes thereto are rounded to thousands of Czech korunas unless stated otherwise.

#### 2.11 Tangible Fixed Assets

Purchased fixed tangible assets are recognised at acquisition cost, which includes the price for which the assets were acquired and the expenses relating to the acquisition.

The depreciation of fixed tangible assets was calculated using the straight-line depreciation method, based on the estimated useful life of the assets. The depreciation period for personal computers, servers, printers etc. is 3 years. The depreciation period for passenger cars is 5 years. The depreciation period for strongboxes is 10 years. Works of art are not subject to depreciation.

Repair and maintenance expenses on fixed tangible assets are charged directly to expenses.

Tangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 40 000 per item are charged directly to expenses once they are put into use.

The amortisation of fixed intangible assets was calculated using the straight-line amortisation method over 3 years.

Intangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 60 000 per item are charged directly to expenses once they are put into use.

#### 2.12 Securities and Shares

The Financial Market Guarantee System classifies securities and shares as securities held for trading and securities held to maturity.

##### **Securities Held for Trading:**

Securities held for trading are securities held by the Financial Market Guarantee System for the purpose of transactions aimed at generating profit from price differences in the short term.

When purchased, securities and shares are recognised at acquisition cost, including transaction expenses. Securities held for trading are measured at fair value. The Financial Market Guarantee System uses the market value of securities as of the balance sheet date to calculate the fair value. The valuation of securities not traded on public markets is based on an expert opinion or a qualified estimate made by the Financial Market Guarantee System.

Interest income from securities held for trading is recognized as Income from short-term assets.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

Profit and loss arising from changes in the fair value of securities held for trading are recognised in the profit and loss account in the period in which they arise.

#### **Securities Held to Maturity:**

Securities held to maturity are non-derivative financial assets with a fixed or predefined yield and fixed maturity, which the Financial Market Guarantee System intends and is able to hold until their maturity.

When purchased, securities held to maturity are recognised at acquisition cost, including transaction expenses, and subsequently valued at amortised costs.

Interest income from securities held to maturity includes accrued coupons, discounts and premiums on debt securities and is recognised as 'Interest revenue'.

#### **Repo and Buy/Sell Operations:**

Collateralized receivables as part of repo and buy-sell transactions are reported under 'Other receivables', including accrued interest. Interest from these transactions is recorded on an accruals basis for the duration of such a transaction and recognised as interest revenue.

### 2.13 Foreign Currency Conversions

Transactions carried out in foreign currencies are converted and posted at the exchange rate valid on the transaction date. All monetary assets and liabilities maintained in foreign currencies were converted at the exchange rate published by the Czech National Bank as of the balance sheet date. All foreign exchange gains and losses arising from the conversion of receivables and payables are recognised in the profit and loss account and are reported under 'Foreign exchange gains' and 'Foreign exchange losses'.

### 2.14 Contributions Received from Banks

Contributions to the Deposit Insurance Fund are posted directly to the account of the Funds included in the Deposit Insurance Fund's equity. The amount of contributions is set by the Czech National Bank by 31 May of the year in respect of which contributions are paid, while they are due by 30 June of the given year.

Contributions to the Crisis Resolution Fund are posted to the Contribution Fund of the Crisis Resolution Fund. The amount of contributions is determined by the Czech National Bank by 1 May of the respective year for which the contributions are paid, and are due within the deadline set by the Czech National Bank.

### 2.15 Adjustments and Provisions

The Financial Market Guarantee System does not create adjustments, nor does it account for them in accordance with Section 37 (1) of Decree of the Ministry of Finance of the Czech Republic No. 504/2002 Coll., implementing certain provisions of

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

Act No. 563/1991 Coll., on Accounting, as amended, for units that are not primarily engaged in business activity if they use a double-entry accounting system. The Financial Market Guarantee System neither creates nor accounts for provisions in accordance with Section 40 (1) of the above-mentioned Decree.

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

In accordance with a decree of the Ministry of Finance of the Czech Republic and an internal accounting regulation governing accepted contributions, compensation disbursements and related cases, the commencement of disbursement, payables to clients of the banks for which the compensation is being disbursed, are posted by the Financial Market Guarantee System against the reduction in the above-mentioned account of the funds included in equity. A receivable due from banks that could not meet their commitments to clients is posted in the same amount against the funds account in equity.

#### 2.17 Equity/Funds

Based on a decision of the Board of Directors of the Financial Market Guarantee System, the financial result (profit or loss from the current year) is transferred to Retained earnings / Retained losses prior years or to Funds within the framework of the own resources of the Financial Market Guarantee System. The subsequent transfer of retained earnings prior years from the Retained earnings / Retained losses prior years to Funds is possible if the Board of Directors of the Financial Market Guarantee System so decides.

#### 2.18 Use of Estimates

The preparation of the financial statements requires that the Financial Market Guarantee System uses estimates and assumptions that influence the recognised values of assets and liabilities as of the date of the financial statements, and the recognised amounts of revenues and expenses for the reporting period. The Financial Market Guarantee System has defined these estimates and assumptions on the basis of all the relevant information available to the Financial Market Guarantee System. Nevertheless, the inherent nature of estimates means that the actual future values may differ from these estimates.

#### 2.19 Subsequent Events

The impact of events that occurred between the balance sheet date and the date of preparation of the financial statements is reported in the accounting reports if such events provide additional information about facts that existed as of the balance sheet date.

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

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2017

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

(CZK '000)	As of 31 December 2017	As of 1 January 2017
Receivables from compensation disbursed	27,713,774	30,069,097
Receivables from duplicate payments	14,672	14,672
Receivables from coupons	0	1,002
Other receivables	235	2,179
Receivables from unpaid contributions	3,044	3,044
<b>Other receivables – total</b>	<b>27,731,725</b>	<b>30,089,994</b>

Receivables from compensation disbursed include receivables due from banks and cooperative credit unions that failed to meet their commitments to clients; they amounted to CZK 27,713,774,000 as of 31 December 2017 (as of 1 January 2017: CZK 30,069,097,000, of which CZK 8,236,000 was a receivable based on funds provided to a financial institution in order to disburse compensation that has however not yet been disbursed).

No adjustments were created for these receivables based on a measure of the Ministry of Finance of the Czech Republic (see note 2.16.). If there were an option to create an adjustment, the Financial Market Guarantee System would create an 89% adjustment for the Receivables from compensation of deposits disbursed.

**3.2** Debt Securities Held to Maturity**Debt Securities Held to Maturity at Amortised Costs:**

(CZK '000)	As of 31 December 2017	As of 1 January 2017
Debt securities held to maturity	3,165,224	3,576,546

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2017 (the same as of 1 January 2017). The value of the bonds in market terms reached CZK 3,473,570,000 as of 31 December 2017 (as of 1 January 2017 the value was CZK 4,123,163,000).

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2017

## 3.3 Securities Held for Trading

**Fair Value of Securities Held for Trading:**

(CZK '000)

**As of 31 December 2017****As of 1 January 2017**

	<b>As of 31 December 2017</b>	<b>As of 1 January 2017</b>
Debt securities held for trading	0	758,450

As of 31 December 2017, the Financial Market Guarantee System did not hold any debt securities for trading (as of 1 January 2017, its portfolio included only Czech government bonds).

The sale of the entire portfolio of debt securities for trading was due to a change in the investment strategy in 2016, when the majority of securities were sold and the funds were mainly invested in repo operations with government treasury bills or CNB bills. The remaining portfolio was sold in early 2017.

## 3.4 Statement of Changes on the Funds Account

The Financial Market Guarantee System has no registered capital. Its equity consists of a funds account and its profit/loss.

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

(CZK '000)

**2017****2016**

	<b>2017</b>	<b>2016</b>
<b>Deposit Insurance Fund:</b>		
Opening balance – 1 January	54,263,099	53,147,748
Contributions received (see note 3.6.)	940,652	2,055,539
New receivables due from banks in insolvency and liquidation	–685	3,534,849
Written-off receivables and payables from compensation disbursements	–782,324	–940,940
Compensation disbursement	685	–3,534,849
Additional payments and refunds from settlement, other receivables due from banks	22,097	752
<b>Closing balance – 31 December</b>	<b>54,443,524</b>	<b>54,263,099</b>

During 2017, the Financial Market Guarantee System continued with the disbursement of compensation of deposits to clients of ERB bank, a. s., which was started in 2016. In 2017, it finished the disbursement of compensation of deposits to clients of Metropolitní spořitelní družstvo and WPB Capital, spořitelní družstvo, due to lapse of the 3-year statutory deadline.

(CZK '000)

**2017****2016**

	<b>2017</b>	<b>2016</b>
<b>Crisis Resolution Fund:</b>		
Opening balance – 1 January	2,958,882	0
Contributions received (see note 3.6.)	3,024,920	2,958,882
<b>Closing balance – 31 December</b>	<b>5,983,802</b>	<b>2,958,882</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

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## 3.5 Liabilities

Payables from compensation disbursements as of 31 December 2017 were CZK 44,161,000 (1 January 2017: CZK 293,692,000). Payables from compensation disbursements are posted in Liabilities in Part B.III. - Other payables.

Payables from social security and health insurance as of 31 December 2017 were CZK 667,000 (1 January 2017: CZK 821,000), of which CZK 354,000 (1 January 2017: CZK 456,000) is social security payables and CZK 313,000 (1 January 2017: CZK 365,000) is health insurance payables.

Tax liabilities amounted to CZK 466,000 (1 January 2017: CZK 572,000).

None of these payables were overdue.

## 3.6 Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.15.).

(CZK '000)	2017	2016
Contributions received from banks	3,965,572	5,014,421

By mid-2017, bank contributions to the Deposit Insurance Fund for 2017 totalled CZK 940,496,000 and contributions to the Crisis Resolution Fund during the period April - June 2017 were CZK 3,024,920,000. In connection with the transfer of some deposits of the former branch office of ZUNO bank AG to Raiffeisenbank, a. s., the Financial Market Guarantee System received a pro rata share of the contribution paid for these deposits for the most recent year from the Austrian deposit insurance scheme (Österreichische Raiffeisen-Einlagensicherung eGen) totalling CZK 156,000. In 2016, bank contributions to the Deposit Insurance Fund for the 4th quarter of 2015 totalled CZK 1,176,107,000 according to their payment system valid until the end of 2015. Based on the amendment to the Act on Banks No. 375/2015 Coll., by 30 June 2016 bank contributions for 2016 totalled CZK 879,432,000. In connection with the establishment of the Crisis Resolution Fund, at the turn of 2016, banks and selected investment firms paid contributions to this fund for 2016 totalling CZK 2,958,882,000.

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

(CZK '000)	2017	2016
<b>Revenues:</b>		
Revenues from securities sold	757,364	5,697,571
Contractual penalties, late payment interest, other fines and penalties	31	185
Interest revenue	143,469	194,454
Foreign exchange gains	21	2
Other revenues (see note 3.8.)	2,842	2,883
<b>Total</b>	<b>903,727</b>	<b>5,895,095</b>
<b>Expenses:</b>		
Securities sold	-758,907	-5,747,447
Amortisation of intangible and depreciation of tangible fixed assets	-666	-600
Purchases consumed	-493	-559
Services	-14,229	-13,250
Personnel costs	-16,009	-14,697
Taxes and fees	-32	-72
Foreign exchange losses	-12	-19
Other expenses (see note 3.8.)	-2,535	-6,000
<b>Total</b>	<b>-792,883</b>	<b>-5,782,644</b>

## 3.8 Other Revenues and Other Expenses

(CZK '000)	2017	2016
<b>Revenues:</b>		
Sundry other revenues - change in the fair value of securities held for trading	0	2,883
Other	2,842	0
<b>Total</b>	<b>2,842</b>	<b>2,883</b>
<b>Expenses:</b>		
Sundry other expenses - change in the fair value of securities held for trading	0	-3,624
Other	-2,535	-2,376
<b>Total</b>	<b>-2,535</b>	<b>-6,000</b>



## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

The profit for 2017 of CZK 110,844,000, which represents the profit of the Deposit Insurance Fund of CZK 108,163,000 and the profit of the Crisis Resolution Fund of CZK 2,681,000, is proposed for transfer to retained earnings from prior years.

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2017 amounted to CZK 11,777,000 (2016: CZK 10,776,000).

In 2017, the auditor Ernst & Young, Audit, s. r. o., was reimbursed for the statutory audit of the financial statements for 2016. The auditor's fee was CZK 363,000 (2016: CZK 315,000).

In 2017, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 93,000 in connection with liability insurance for the members of the Board of Directors and the members of the Management Board for damage caused when exercising their functions.

### 3.9 Reimbursement of the Costs of the Financial Market Guarantee System

Pursuant to Section 207 (2) of the AFCPR, the Financial Market Guarantee System has the right to the reimbursement of costs incurred in connection with the management of the Deposit Insurance Fund and the Crisis Resolution Fund, and this from the Deposit Insurance Fund and from the Operational Fund of the Crisis Resolution Fund. In 2017, the Financial Market Guarantee System only incurred costs connected with the management of the two Funds.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2017 totalled 32,371,000 (2016: 30,633,000), of which CZK 29,039,000 (2016: CZK 28,688,000) was expenses related to the management of the Deposit Insurance Fund and CZK 3,332,000 (2016: CZK 1,945,000) was expenses related to the management of the Crisis Resolution Fund.

The expenses related to the management of the Deposit Insurance Fund of CZK 29,039,000 (2016: CZK 28,688,000) were reimbursed to the Financial Market Guarantee System from resources of the Deposit Insurance Fund.

Due to the lack of resources in the Operational Fund of the Crisis Resolution Fund in 2017, the costs related to the management of the Crisis Resolution Fund - comprised of operating expenses, expenses related to securities management and the share of the Crisis Resolution Fund in asset depreciation, totalling CZK 3,831,000 in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of Financial Market Guarantee System - were paid from resources of the Deposit Insurance Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund against the Crisis Resolution Fund. This receivable will be paid to the Deposit Insurance Fund from the Operational Fund of the Crisis Resolution Fund after approval of the 2017 financial statements and after completion of the transfer of the 2017 investment income to the Operational Fund of the Crisis Resolution Fund. A portion of the assets of the Operational Fund of the Crisis Resolution Fund totalling CZK 1,945,000 will be used to settle the receivable arising in 2016. The remaining balance of assets in the Operational Fund of the Crisis Resolution Fund will stand at CZK 736,000, which can be used for expenses related to the management of the Crisis Resolution Fund in subsequent years.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

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## 3.10 Litigation

The following three actions were filed against the original Deposit Insurance Fund in 2010 and 2011:

**Claimant TALIAATELLA HOLDINGS LIMITED (previously Conroe Consulting Services Limited)**

On 18 December 2010, an action was filed against the Deposit Insurance Fund (since 2016, the Financial Market Guarantee System) by Conroe Consulting Services Limited, with its registered office at 46/2, South Street, Valleta VLT 1101 Malta, **seeking the payment of CZK 1,561,731,947 including accessions. The action was filed with the District Court for Prague 1 with reference 18 C 364/2010. The claimant sought the awarding of damages in the above-mentioned amount that had allegedly arisen from the defendant failing to disburse, in accordance with Act No. 443/2006 Coll., the Act on Compensation, as amended until 2 March 2007, additional compensation of insured deposits with Kreditní banka Plzeň, a.s. within the statutory period.** However, at the time, the Deposit Insurance Fund proceeded in line with the Act on Banks and failed to disburse the compensation because the Czech National Bank - in agreement with the Ministry of Finance of the Czech Republic - had extended the period for compensation disbursement. The relevant part of the above-mentioned Act on Compensation was subsequently repealed by a ruling of the Constitutional Court of the Czech Republic dated 15 February 2007, effective from 2 March 2007. During proceedings, the original claimant's alleged claim was assigned to new claimant **TALIAATELLA HOLDINGS LIMITED.**

**The action was dismissed by a judgment issued by the District Court for Prague 1 on 2 May 2012 with reference 18 C 364/2010-80 and it was ordered that the defendant would be reimbursed for the costs of the case. The judgment of the first instance court to dismiss the action was upheld by a judgment issued by the Municipal Court in Prague, acting as the court of appeal in the case, on 27 January 2014 with reference 22 Co 505/2012.**

**On 20 August 2015, the District Court for Prague 1 issued a European Enforcement Order - the certificate confirming a judgement. At the current time the costs of the proceedings are being sought from the claimant.**

**Claimant ASSETWISE LIMITED**

On 30 August 2011, ASSETWISE LIMITED, ID No.: HE 284286, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, P. C. 6042 Larnaca, the Republic of Cyprus, filed an action against the Deposit Insurance Fund (since 2016, the Financial Market Guarantee System), **seeking the payment of CZK 1,406,963,367, including accessions. The claim was allegedly based on the provisions of part two of Article III (4) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking financial compensation. Nevertheless, the essence of the dispute is similar to that in the dispute with TALIAATELLA HOLDINGS LIMITED.**

The proceedings were conducted before the District Court for Prague 1 with reference 68 C 85/2012. **The above court dismissed the action by a judgment of 30 March 2016 with reference 68 C 85/2012-203 and ordered that the defendant would be reimbursed for the costs of the case. The judgment of the first instance court to dismiss the action was upheld by a judgment issued on 24 October 2017 by the Municipal Court in Prague, acting as the court of appeal in the case. Upon delivery of the above judgment, the proceedings were terminated as a final judicial decision. However, it cannot be ruled out that the claimant will file a special appeal with the Supreme Court. At the current time the costs of the proceedings are being sought from the claimant.**

**Claimant MERKURIO PANAMA S.A. (previously VALSPRING HOLDINGS LIMITED)**

On 30 August 2011, VALSPRING HOLDINGS LIMITED, ID No.: HE 235682, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, Post Code 6042, Larnaca, the Republic of Cyprus, filed an action against the Deposit

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2017

Insurance Fund (since 2016, the Financial Market Guarantee System), **seeking the payment of CZK 1,621,470,327, including accessions. The claim was allegedly based on the provisions of part two of Article III (1) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking the payment of additional compensation. Nevertheless, the essence of the dispute is similar to that in the dispute with TALIAATELLA HOLDINGS LIMITED. As a result of the assignment of the alleged claim, the original claimant was replaced during the proceedings by MERKURIO PANAMA S.A., with its registered office in the Republic of Panama, Panama, 50th Avenue, Global Bank Tower, 18th floor, Office 1801. The proceedings were conducted before the District Court for Prague 1 with reference 42 C 208/2012.**

The District Court for Prague 1 dismissed the action by a judgment of 29 May 2013 with reference 42 C 208/2012-155 and ordered that the defendant would be reimbursed for the costs of the case. The judgment of the first instance court to dismiss the action was upheld by a judgment issued on 14 September 2015 with reference 53 Co 420/2013-288 by the Municipal Court in Prague, acting as the court of appeal in the case. The claimant's special appeal against the above judgments was rejected by a resolution of the Supreme Court of 26 October 2016 with reference 29 Cdo 1052/2016-318. At the current time the costs of the proceedings are being sought from the claimant.

### 3.11 Subsequent Events

No events took place after the balance sheet date which could have a material impact on the Financial Market Guarantee System financial statements as of 31 December 2017.

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

Prague, 13 June 2018



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager

# IX DEPOSIT INSURANCE FUND

## INDEPENDENT AUDITOR'S REPORT



## ***Independent auditor's report***

### **to the Board of Directors of Garanční systém finančního trhu**

#### *Opinion*

We have audited the accompanying financial statements of Fond pojištění vkladů, with its registered office at Týn 639/1, Praha ("the Fund") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017 and the income statement for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2017 and of its financial performance for the year then ended in accordance with Czech accounting legislation.

#### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund and the company Garanční systém finančního trhu (Fund manager) in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body of Garanční systém finančního trhu is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Fund obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

#### *Responsibilities of the Statutory Body and The Board of Directors of Garanční systém finančního trhu for the Financial Statements*

The Statutory Body of Garanční systém finančního trhu is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Statutory Body of Garanční systém finančního trhu determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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](http://www.pwc.com/cz)*

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**The Board of Directors of Garanční systém finančního trhu  
Independent auditor's report**

In preparing the financial statements, the Statutory Body of Garanční systém finančního trhu is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.
- Conclude on the appropriateness of the Statutory Body's of Garanční systém finančního trhu use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body and the Board of Directors of Garanční systém finančního trhu regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13 June 2018

  
represented by partner



Petr Kříž  
Statutory Auditor, Evidence No. 1140

**Note**

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



# FINANCIAL STATEMENTS

## Deposit Insurance Fund

Date of financial statements:	31/12/2017
Date of preparation of financial statements:	13/6/2018

### Balance Sheet as of 31 December 2017 (CZK '000)

ASSETS	As of 1 January 2017	As of 31 December 2017
<b>A. Total fixed assets</b>	<b>3,181,065</b>	<b>2,961,990</b>
<b>I. Intangible fixed assets – software</b>	<b>4,045</b>	<b>2,766</b>
<b>II. Tangible fixed assets</b>	<b>1,544</b>	<b>1,822</b>
Works of art, objects and collections	46	195
Tangible assets and their sets	1,498	1,627
<b>III. Long-term investments – bonds, debentures and similar securities held to maturity</b>	<b>3,179,550</b>	<b>2,960,260</b>
<b>IV. Total accumulated depreciation and amortisation of fixed assets</b>	<b>-4,074</b>	<b>-2,858</b>
Accumulated amortisation of software	-2,885	-1,457
Accumulated depreciation of machinery and equipment	-1,189	-1,402
<b>B. Total current assets</b>	<b>54,805,731</b>	<b>55,061,786</b>
<b>II. Total receivables</b>	<b>30,090,005</b>	<b>27,737,503</b>
Operating advances paid	11	3
Other receivables	30,089,994	27,737,500
<b>III. Total current financial assets</b>	<b>24,715,463</b>	<b>27,324,000</b>
Cash in hand	47	29
Stamps and vouchers	115	54
Financial resources on accounts	23,559,856	27,118,953
Debt securities held for trading	758,450	0
Other securities	396,995	204,964
<b>IV. Total other assets</b>	<b>263</b>	<b>283</b>
Prepaid expenses	263	283
<b>Total assets</b>	<b>57,986,796</b>	<b>58,023,776</b>

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2017

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2017</b>	<b>As of 31 December 2017</b>
<b>A. Total equity</b>	<b>57,687,031</b>	<b>57,975,619</b>
<b>I. Equity – funds</b>	<b>54,263,099</b>	<b>54,443,524</b>
<b>II. Total profit/loss</b>	<b>3,423,932</b>	<b>3,532,095</b>
Profit/loss account	114,396	108,163
Retained earnings	3,309,536	3,423,932
<b>B. Total liabilities</b>	<b>299,765</b>	<b>48,157</b>
<b>III. Total current payables</b>	<b>299,765</b>	<b>48,157</b>
Payables to suppliers	607	909
Employees	1,896	1,652
Other payables to employees	4	5
Payables to social security and public health insurance institutions	821	667
Other direct tax liabilities	572	466
Other payables	293,724	44,176
Estimated payables	2,141	282
<b>Total equity and liabilities</b>	<b>57,986,796</b>	<b>58,023,776</b>



## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2017

Profit and Loss Account for the year ended 31 December 2017  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I. Consumed purchases and purchased services</b>	<b>13,486</b>	<b>0</b>	<b>13,486</b>
1. Consumption of material	432	0	432
3. Repairs and maintenance	21	0	21
4. Travel expenses	1,130	0	1,130
5. Representation expenses	141	0	141
6. Other services	11,762	0	11,762
<b>III. Personnel costs</b>	<b>14,022</b>	<b>0</b>	<b>14,022</b>
10. Wages and salaries	10,315	0	10,315
11. Statutory social security insurance	3,203	0	3,203
13. Statutory social expenses	325	0	325
14. Other social expenses	179	0	179
<b>IV. Taxes and fees</b>	<b>31</b>	<b>0</b>	<b>31</b>
<b>V. Other expenses</b>	<b>1,959</b>	<b>0</b>	<b>1,959</b>
19. Foreign exchange losses	11	0	11
22. Sundry other expenses	1,948	0	1,948
<b>VI. Depreciation, assets sold, creation and use of provisions and adjustments</b>	<b>759,573</b>	<b>0</b>	<b>759,573</b>
23. Amortisation of intangible and depreciation of tangible fixed assets	666	0	666
25. Securities and interests sold	758,907	0	758,907
<b>Total expenses</b>	<b>789,071</b>	<b>0</b>	<b>789,071</b>

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2017

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV. Other revenues</b>	<b>139,870</b>	<b>0</b>	<b>139,870</b>
5. Contractual penalties, late payment interest, other fines and penalties	31	0	31
7. Interest revenue	136,979	0	136,979
8. Foreign exchange gains	18	0	18
10. Sundry other revenues	2,842	0	2,842
<b>V. Revenues from assets sold</b>	<b>757,364</b>	<b>0</b>	<b>757,364</b>
12. Revenues from securities and interests sold	757,364	0	757,364
<b>Total revenues</b>	<b>897,234</b>	<b>0</b>	<b>897,234</b>
<b>C. Profit/loss before tax</b>	<b>108,163</b>	<b>0</b>	<b>108,163</b>
<b>D. Profit/loss after tax</b>	<b>108,163</b>	<b>0</b>	<b>108,163</b>

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Financial Market Guarantee System performed only the main activities for which it was established in terms of the management of the Deposit Insurance Fund. Nor did the Financial Market Guarantee System perform any economic activity within the meaning of Section 5a (2) of the Decree (additional, secondary, business or other activity outside the main activity).

## The Deposit Insurance Fund

### Financial Statements

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## 1 ■ General Information

The Deposit Insurance Fund is an accounting unit managed by the Financial Market Guarantee System, which is a legal person governed by public law, which was established under its original name the Deposit Insurance Fund by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

The identification number of the Financial Market Guarantee System is 497 10 362. Based on Act No. 586/1992 Coll., on Income Taxes, as amended, the income of the Financial Market Guarantee System is exempt from income tax. The registered office of the Financial Market Guarantee System is Prague 1, Týn 639/1.

Under legislation effective from 1 January 2016, the Management Board of the Financial Market Guarantee System is its statutory body. The Board of Directors remains the supreme body of the Financial Market Guarantee System with the powers listed in Section 201 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended.

The mission of the Financial Market Guarantee System is the operation of the deposit insurance system in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq., Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq., Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended). By performing these activities, the Financial Market Guarantee System contributes to the stability of the financial market.

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

With effect from 1 January 2016, based on Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution (the "AFCPR"), the Deposit Insurance Fund was transformed into the Financial Market Guarantee System. This was not a "transformation" of a legal person within the meaning of Section 174 et seq. of Act No. 89/2012 Coll., the Civil Code (i.e. in the sense of a merger, division or change of legal form), but only a "change" consisting in particular of: a) a name change (Section 252 of the AFCPR), b) a change to the organisational structure (Section 199 et seq. of the AFCPR - a change to the statutory body, a listing of the powers of the Board of Directors, etc. and c) an extension of the scope of activity (Section 198 of the AFCPR, on the management of assets in the Crisis Resolution Fund). We thus cannot speak of legal succession because there has been no transition of rights and obligations, and the legal person (holder of rights and obligations) has been retained (the same identification number).

### 1.2 ■ Managed Funds (Nonentities)

In view of the retention of continuity of legal personality (the original Deposit Insurance Fund has changed into the Financial Market Guarantee System), while the funds managed by the Financial Market Guarantee System (the Deposit Insurance Fund and the Crisis Resolution Fund) have no legal personality (Section 198 (4) of the AFCPR), it is necessary to differentiate the Deposit Insurance Fund until 31 December 2015 (legal personality, change into the Financial Market Guarantee System) and the Deposit Insurance Fund from 1 January 2016 (nonentity made up of part of the assets of the Financial Market Guarantee System).

While the new nonentity Deposit Insurance Fund was de facto established by law on 1 January 2016 (see Section 254 of the AFCPR on allocation of assets and debts to the Deposit Insurance Fund), the Crisis Resolution Fund was established on the basis of

## The Deposit Insurance Fund

### Financial Statements

Year ended 31 December 2017

Section 209 (1) of the AFCPR through the Statute of the Financial Market Guarantee System on 12 January 2016 (Article 5 of the Statute of the Financial Market Guarantee System ).

### 1.3 Assets Placed in Funds

Section 198 (2) of the AFCPR states that the Financial Market Guarantee System manages assets created by the Deposit Insurance Fund, the Crisis Resolution Fund and other assets of the Financial Market Guarantee System. From the legal point of view, therefore, they are always assets of the Financial Market Guarantee System, located a) in the Deposit Insurance Fund, b) in the Crisis Resolution Fund, c) outside of both funds (i.e. not a model of an investment company - mutual fund, when the assets in the mutual fund are not the assets of the investment company).

From the accounting point of view, the Financial Market Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund are three separate accounting units, while the assets constituted by the Deposit Insurance Fund, the assets constituted by the Crisis Resolution Fund and other assets of the Financial Market Guarantee System are kept separately in asset and accounting terms (Section 205 and Article 198 (2) of the AFCPR). Each of the accounting units has its own financial statements and their preparation is ensured by the Financial Market Guarantee System.

While as of the date of establishment of the Crisis Resolution Fund there were no assets in it (its opening balance did not need to be audited), as of 1 January 2016 existing assets and debts of the original Deposit Insurance Fund related to the insurance of deposit receivables (Section 254 of the AFCPR) were allocated to the Deposit Insurance Fund, in particular:

- bank contributions under the Deposit Guarantee System,
- receivables of beneficiaries resulting from compensation of insured receivables from deposits,
- proceeds from investing the resources of the original Deposit Insurance Fund,
- assets and debts in connection with the procurement of the necessary resources on the market, subsidies, repayable financial assistance (as of 1 January 2016 there were no such debts),
- receivables of the original Deposit Insurance Fund,
- resources on the bank accounts of the original Deposit Insurance Fund to ensure that the opening balance sheet of the new Deposit Insurance Fund is balanced.

For this reason, the opening balance sheet of the Deposit Insurance Fund was subject to verification by an auditor. There were no other assets or debts than those listed above in the original Deposit Insurance Fund.

## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2017

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## 2 Accounting Policies

### 2.1 Bookkeeping

The Financial Market Guarantee System provides accounting for the management of the Deposit Insurance Fund pursuant to Act No. 563/1991 Coll., on Accounting, as amended (the "Act on Accounting"), Implementing Decree No. 504/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units whose main business activity is not commercial business, if they use double-entry bookkeeping, as amended (the "Decree") and other legislation governing bookkeeping, and in accordance with the accounting methods specified therein.

The Deposit Insurance Fund is a separate accounting unit ("accounting unit").

The Financial Market Guarantee System records the status and movement of assets and liabilities, costs and revenues, and profit or loss of the Deposit Insurance Fund. The accounting for the subject of accounting is performed in ledgers kept separately for the Deposit Insurance Fund in a way that allows for the preparation of financial statements for the Deposit Insurance Fund.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System performs the management of the Deposit Insurance Fund and that the Financial Market Guarantee System is entitled and bound by the legal relationships. From the point of view of the accounting, all the accounting documents (as well as the electronic registry service) will be recorded in the Financial Market Guarantee System.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System manages the Deposit Insurance Fund and the Crisis Resolution Fund (the "Funds") and that all activity is tied to the management of the Funds. In terms of the bookkeeping, all expenses, revenues, costs, income, receivables and payables are items for the individual Funds. The Financial Market Guarantee System, as a legal person, maintains all these accounting cases in its accounts and materially assigns them to the individual Funds.

### 2.2 System of Accounting and Retention of Accounting Documents

The Financial Market Guarantee System maintains full accounts for the Deposit Insurance Fund and uses double-entry accounting for the status and movement of property and other assets, payables, including debts and other liabilities, costs and revenues, and profit or loss.

It uses double-entry records for facts that are the subject of their accounts until the period to which they relate in time and in fact.

The accounting period for the Deposit Insurance Fund is the calendar year.

The Deposit Insurance Fund's bookkeeping has been maintained since 1 January 2016.

The Financial Market Guarantee System maintains a single bookkeeping for the Deposit Insurance Fund for the accounting unit as a whole.

## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2017

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The bookkeeping is maintained as a set of accounting records using technical means, data carriers and software. An accounting record is data that are a record of all the facts relating to the maintenance of the accounts. Accounting units must record every fact relating to the maintenance of accounts exclusively through accounting records. Individual accounting records may be grouped into aggregate accounting records; such accounting records are in particular accounting documents, accounting entries, ledgers, the depreciation plan, inventory listings, accounting plans, financial statements and the annual report.

The bookkeeping is maintained in monetary units of the Czech currency.

The bookkeeping is maintained in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled.

Facts that are the subject of the accounts (“accounting cases”) are captured through accounting documents.

Accounting cases are recorded in ledgers (“accounting entries”) only on the basis of probative accounting records.

The bookkeeping is kept in such a way that the financial statements prepared on its basis are comprehensible and provide a true and fair view of the accounting unit’s accounts and financial situation.

The bookkeeping is kept in a correct, complete, probative, comprehensible, clear manner that ensures the continuity of the accounting records.

The bookkeeping is kept in a way that ensures the continuity of the accounting records so that the accounting unit complies with its obligations relating to their retention under the Act on Accounting.

The Financial Market Guarantee System assigns another person to process the accounts of the accounting unit on the basis of a contractual relationship in accordance with Section 5 of the Act on Accounting.

### 2.3 Scope of Bookkeeping, Accounting Documents, Accounting Records and Ledgers

The Financial Market Guarantee System maintains separate bookkeeping for the Deposit Insurance Fund in full scope.

The accounting documents are probative accounting records that must include:

- identification of the accounting document,
- the content of the accounting case and its participants,
- the monetary amount or information on the price per unit of measurement and an indication of the quantity,
- the moment of preparation of the accounting document,
- the moment of performance of the accounting case, if not identical to the moment of the preparation of the accounting document,
- the signature record of the person responsible for the accounting case and the signature record of the person responsible for its posting.

The accounting documents are prepared without undue delay.

## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2017

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The accounting entries are accounting records in ledgers.

They are posted in the following ledgers:

- in the journal(s) in which the accounting entries are organized in terms of time (chronologically) and which show the accounting of all the accounting cases in the accounting period,
- in the main ledger in which the accounting entries are organized on a factual (systematic) basis,
- in the books of analytical accounts detailing the accounting records of the main ledger.

## 2.4 Plan of Accounts

The accounting unit prepares a plan of accounts for each accounting period within the meaning of the guideline chart of accounts, accounting methods, organization and marking of the items of financial statements, and the content definition of those items determined in the Decree. During the accounting period, the plan of accounts may be supplemented. The amounts in the analytical accounts books must correspond to the relevant aggregate cash amounts of the turnover or balance of the synthetic accounts to which these accounts are connected.

## 2.5 Financial Statements, Accounting Audit

Before the preparation of the financial statements, an inventory is performed.

The financial statements are an inseparable whole and comprise:

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

## 2.6 Storage of Accounting Documents

The Executive Director of the Financial Market Guarantee System is responsible for the organization of the storage of accounting documents, and may designate the person responsible for the execution of the storage of the accounting documents. The archiving of accounting documents is performed according to the Archiving and Shredding Rules.

## 2.7 Accounting Methodological Guidelines

Accounting methodological guidelines are prepared to comply with Directive No. 22 - Bookkeeping, in accordance with the Accounting Act and other statutory regulations.

The accounting methodological guidelines are approved by the Financial Market Guarantee System Board of Directors.

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

## The Deposit Insurance Fund

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## 2.8 Assignment Procedures for Accounting Cases

### 2.8.1 Accounting Cases Directly Assignable to the Funds

2.8.1.1 These cases are charged by the Financial Market Guarantee System and directly assigned - posted - to the relevant Fund accounts.

2.8.1.2 These cases include, in particular, received contributions to the Funds and the investment of the financial reserves. Individual bank accounts are set up for the allocation of the contributions to the individual Funds. These accounts may also be used for investing assets in the individual Funds, unless separate bank accounts are established for this purpose. Directly assignable Accounting cases directly assignable to the Funds also include other accounting cases on these bank accounts, such as interest accrued or fees related to the management of these accounts.

### 2.8.2 Other Accounting Cases (for example, received invoices for rent, legal services, accounting, wages, depreciation, etc.)

2.8.2.1 Directly assignable accounting documents for individual funds that arise from invoicing (e.g. portfolio management fees), or where there is another possibility of direct assignment (for example, an annex with a breakdown of the purpose of legal representation by Fund for legal services). The Financial Market Guarantee System attributes and charges to the relevant Fund accounts according to the supporting criteria established from the accounting case.

2.8.2.2 In the event common accounting cases cannot be assigned to individual Funds under paragraph 2.8.2.1, this assignment will be made at a ratio determined as follows:

- a) To calculate the ratio of costs for managing the individual Funds, the cost-to-work ratio method is used for each Fund in the staff statements of work. Staff at the Financial Market Guarantee System prepare statements of work on a monthly basis.
- b) The ratio of the activities performed for each Fund will be calculated as of 31 December.
- c) The annual ratio calculated under point 2.8.2.2 (b) will be used to account for the advance ratio and will be balanced according to the actual status as of 31 December of the current year.
- d) The annual ratio calculated under point 2.8.2.2 (b) will be used to determine the advance ratio for the following accounting period. This rule was applied for the first time in the 2017 accounting period.

**2.8.3** The Financial Market Guarantee System proceeds with the assignment of expenses similarly to in paragraphs 2.8.1 and 2.8.2, for example, when paying for the purchase of technical equipment, when paying an advance for a future performance, when calculating anticipated costs or income, when paying a deposit or similar performances.

## 2.9 Providing Advances from the Deposit Insurance Fund for the Operating Costs of the Financial Market Guarantee System

The Financial Market Guarantee System incurs costs connected with the management of the Deposit Insurance Fund.

Expenditure related to the management of the Deposit Insurance Fund is covered from operating income, primarily from the investment income of the Deposit Insurance Fund.



## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2017

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The Financial Market Guarantee System shall establish the budget of all accounting units prior to the start of the current year, and at the same time determine the amount of advances to be provided from the Deposit Insurance Fund to cover operating costs. Advances can be provided in instalments.

After the end of the accounting period, advances are settled with actual costs.

Receivables and payables between the managed accounting units from the title of the payment of operating costs are subject to an inventory during the preparation of the financial statements.

## 2.10 Basic Principles for Preparing the Financial Statements

The financial statements are compiled in accordance with accounting regulations applicable in the Czech Republic and with Czech Accounting Standards for units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for securities held for trading, which are recognised at fair value, and securities held to maturity, which are valued at amortised costs. The financial statements are compiled on the assumption that the unit is able to continue as a going concern. The amounts in the financial statements and in the notes thereto are rounded to thousands of Czech korunas unless stated otherwise.

## 2.11 Tangible Fixed Assets

Purchased fixed tangible assets are recognised at acquisition cost, which includes the price for which the assets were acquired and the expenses relating to the acquisition.

The depreciation of fixed tangible assets was calculated using the straight-line depreciation method, based on the estimated useful life of the assets. The depreciation period for personal computers, servers, printers etc. is 3 years. The depreciation period for passenger cars is 5 years. The depreciation period for strongboxes is 10 years. Works of art are not subject to depreciation.

Repair and maintenance expenses on fixed tangible assets are charged directly to expenses.

Tangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 40 000 per item are charged directly to expenses once they are put into use.

The amortisation of fixed intangible assets was calculated using the straight-line amortisation method over 3 years.

Intangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 60 000 per item are charged directly to expenses once they are put into use.

The Deposit Insurance Fund

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Financial Statements

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Year ended 31 December 2017

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## 2.12 **Securities and Shares**

The Deposit Insurance Fund classifies securities and shares as securities held for trading and securities held to maturity.

### **Securities Held for Trading :**

Securities held for trading are securities held by the Financial Market Guarantee System for the Deposit Insurance Fund for the purpose of transactions aimed at generating profit from price differences in the short term.

When purchased, securities and shares are recognised at acquisition cost, including transaction expenses. Securities held for trading are measured at fair value. The market value of securities as of the balance sheet date is used to calculate the fair value. The valuation of securities not traded on public markets is based on an expert opinion or a qualified estimate made by the Financial Market Guarantee System.

Interest income from securities held for trading is recognized as Income from short-term assets.

Profit and loss arising from changes in the fair value of securities held for trading are recognised in the profit and loss account in the period in which they arise.

### **Securities Held to Maturity:**

Securities held to maturity are non-derivative financial assets with a fixed or predefined yield and fixed maturity, where there is the intention and ability to hold until their maturity.

When purchased, securities held to maturity are recognised at acquisition cost, including transaction expenses, and subsequently valued at amortised costs.

Interest income from securities held to maturity includes accrued coupons, discounts and premiums on debt securities and is recognised as 'Interest revenue'.

### **Repo and Buy/Sell Operations:**

Collateralized receivables as part of repo and buy-sell transactions are reported under 'Other receivables', including accrued interest. Interest from these transactions is recorded on an accruals basis for the duration of such a transaction and recognised as interest revenue.

## The Deposit Insurance Fund

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### Financial Statements

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Year ended 31 December 2017

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#### 2.13 Foreign Currency Conversions

Transactions carried out in foreign currencies are converted and posted at the exchange rate valid on the transaction date. All monetary assets and liabilities maintained in foreign currencies were converted at the exchange rate published by the Czech National Bank as of the balance sheet date. All foreign exchange gains and losses arising from the conversion of receivables and payables are recognised in the profit and loss account and are reported under 'Foreign exchange gains' and 'Foreign exchange losses'.

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

#### 2.14 Contributions Received from Banks

Contributions to the Deposit Insurance Fund are posted directly to the account of the Fund included in the Deposit Insurance Fund's equity. The amount of contributions is set by the Czech National Bank by 31 May of the year in respect of which contributions are paid, while they are due by 30 June of the given year.

#### 2.15 Adjustments and Provisions

The Deposit Insurance Fund does not create adjustments, nor does it account for them in accordance with Section 37 (1) of Decree of the Ministry of Finance of the Czech Republic No. 504/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for units that are not primarily engaged in business activity if they use a double-entry accounting system. The Deposit Insurance Fund neither creates nor accounts for provisions in accordance with Section 40 (1) of the above-mentioned Decree.

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

In accordance with a decree of the Ministry of Finance of the Czech Republic and an internal accounting regulation governing accepted contributions, compensation disbursements and related cases, the commencement of disbursement, payables to clients of the banks for which the compensation is being disbursed, are posted against the reduction in the above-mentioned account of the funds included in equity. A receivable due from banks that could not meet their commitments to clients is posted in the same amount against the funds account in equity.

#### 2.17 Equity/Funds

Based on a decision of the Board of Directors of the Financial Market Guarantee System, the financial result (profit or loss from the current year) is transferred to the Retained earnings / Retained losses from prior years or to Funds within the framework of the own resources of the Deposit Insurance Fund. The subsequent transfer of retained earnings from prior years from Retained earnings / Retained losses from prior years to Funds is possible again if the Board of Directors of the Financial Market Guarantee System so decides.

The Deposit Insurance Fund

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Financial Statements

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Year ended 31 December 2017

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## 2.18 Use of Estimates

The preparation of the financial statements requires the use of estimates and assumptions that influence the recognised values of assets and liabilities as of the date of the financial statements, and the recognised amounts of revenues and expenses for the reporting period. The Deposit Insurance Fund has defined these estimates and assumptions on the basis of all the relevant information available to the Deposit Insurance Fund. Nevertheless, the inherent nature of estimates means that the actual future values may differ from these estimates.

## 2.19 Subsequent Events

The impact of events that occurred between the balance sheet date and the date of preparation of the financial statements is reported in the accounting reports if such events provide additional information about facts that existed as of the balance sheet date.

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

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

(CZK '000)	As of 31 December 2017	As of 1 January 2017
Receivables from compensation disbursed	27,713,774	30,069,097
Receivables from duplicate payments	14,672	14,672
Receivables from coupons	0	1,002
Other receivables	6,010	2,179
Receivables from unpaid contributions	3,044	3,044
<b>Other receivables – total</b>	<b>27,737,500</b>	<b>30,089,994</b>

Receivables from compensation disbursed include receivables due from banks and cooperative credit unions that failed to meet their commitments to clients; they amounted to CZK 27,713,774,000 as of 31 December 2017 (as of 1 January 2017: CZK 30,069,097,000, of which CZK 8,236,000 was a receivable based on funds provided to a financial institution in order to disburse compensation that has however not yet been disbursed).

No adjustments were created for these receivables based on a measure of the Ministry of Finance of the Czech Republic (see note 2.16.). If there were an option to create an adjustment, the Deposit Insurance Fund would create an 89% adjustment for the Receivables from compensation of deposits disbursed.

Other receivables include a receivable from the Deposit Insurance Fund against the Crisis Resolution Fund to cover the costs connected with the management of the Crisis Resolution Fund of CZK 1,945,000 in 2016 and of CZK 5,775,000 in 2017.

**3.2** Debt Securities Held to Maturity**Debt Securities Held to Maturity at Amortised Costs:**

(CZK '000)	As of 31 December 2017	As of 1 January 2017
Debt securities held to maturity	3,165,224	3,576,546

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2017 (the same as of 1 January 2017). The value of the bonds in market terms reached CZK 3,473,570,000 as of 31 December 2017 (as of 1 January 2017 the value was CZK 4,123,163,000).

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## 3.3 Securities Held for Trading

**Fair Value of Securities Held for Trading:**

(CZK '000)

**As of 31 December 2017****As of 1 January 2017**

	<b>As of 31 December 2017</b>	<b>As of 1 January 2017</b>
Debt securities held for trading	0	758,450

As of 31 December 2017, the Financial Market Guarantee System did not hold any debt securities for trading (as of 1 January 2017, its portfolio included only Czech government bonds).

The sale of the entire portfolio of debt securities for trading was due to a change in the investment strategy in 2016, when the majority of securities were sold and the funds were mainly invested in repo operations with government treasury bills or CNB bills. The remaining portfolio was sold in early 2017.

## 3.4 Statement of Changes on the Funds Account

The Deposit Insurance Fund has no registered capital. Its equity consists of a funds account and its profit/loss.

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

(CZK '000)

**2017****2016**

	<b>2017</b>	<b>2016</b>
Opening balance - 1 January	54,263,099	53,147,748
Contributions received (see note 3.6.)	940,652	2,055,539
New receivables due from banks in insolvency and liquidation	-685	3,534,849
Written-off receivables and payables from compensation disbursements	-782,324	-940,940
Compensation disbursement	685	-3,534,849
Additional payments and refunds from settlement, other receivables due from banks	22,097	752
<b>Closing balance - 31 December</b>	<b>54,443,524</b>	<b>54,263,099</b>

During 2017, the Financial Market Guarantee System continued with the disbursement of compensation of deposits to clients of ERB bank, a. s., which was started in 2016. In 2017, it finished the disbursement of compensation of deposits to clients of Metropolitní spořitelní družstvo and WPB Capital, spořitelní družstvo, due to lapse of the 3-year statutory deadline.

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2017

**3.5** Liabilities

Payables from compensation disbursements as of 31 December 2017 were CZK 44,161,000 (1 January 2017: CZK 293,692,000). Payables from compensation disbursements are posted in Liabilities in Part B.III. - Other payables.

Payables from social security and health insurance as of 31 December 2017 were CZK 667,000 (1 January 2017: CZK 821,000), of which CZK 354,000 (1 January 2017: CZK 456,000) is social security payables and CZK 313,000 (1 January 2017: CZK 365,000) is health insurance payables.

Tax liabilities amounted to CZK 466,000 (1 January 2017: CZK 572,000).

None of these payables were overdue.

**3.6** Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.15.).

(CZK '000)	<b>2017</b>	<b>2016</b>
Contributions received from banks	940,652	2,055,539

By mid-2017, bank contributions to the Deposit Insurance Fund for 2017 totalled CZK 940,496,000. In connection with the transfer of some deposits of the former branch office of ZUNO bank AG to Raiffeisenbank, a. s., the Financial Market Guarantee System received a pro rata share of the contribution paid for these deposits for the most recent year from the Austrian deposit insurance scheme (Österreichische Raiffeisen-Einlagensicherung eGen) totalling CZK 156,000. In 2016, bank contributions to the Deposit Insurance Fund for the 4th quarter of 2015 totalled CZK 1,176,107,000 according to their payment system valid until the end of 2015. Based on the amendment to the Act on Banks No. 375/2015 Coll., by 30 June 2016 bank contributions for 2016 totalled CZK 879,432,000.

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2017

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

(CZK '000)	2017	2016
<b>Revenues:</b>		
Revenues from securities sold	757,364	5,697,571
Contractual penalties, late payment interest, other fines and penalties	31	185
Interest revenue	136,979	194,454
Foreign exchange gains	18	2
Other revenues (see note 3.8.)	2,842	2,883
<b>Total</b>	<b>897,234</b>	<b>5,895,095</b>
<b>Expenses:</b>		
Securities sold	-758,907	-5,747,447
Amortisation of intangible and depreciation of tangible fixed assets	-666	-600
Purchases consumed	-432	-518
Services	-13,054	-12,520
Personnel costs	14,022	-13,628
Taxes and fees	-31	-71
Foreign exchange losses	-11	-17
Other expenses (see note 3.8.)	-1,948	-5,898
<b>Total</b>	<b>-789,071</b>	<b>-5,780,699</b>



## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2017

## 3.8 Other Revenues and Other Expenses

(CZK '000)	2017	2016
<b>Revenues:</b>		
Sundry other revenues - change in the fair value of securities held for trading	0	2,883
Other	2,842	0
<b>Total</b>	<b>2,842</b>	<b>2,883</b>
<b>Expenses:</b>		
Sundry other expenses - change in the fair value of securities held for trading	0	-3,624
Other	-1,948	-2,317
<b>Total</b>	<b>-1,948</b>	<b>-5,941</b>

The 2017 profit of CZK 108,163,000 (2016: CZK 114,396,000) is proposed for transfer to retained earnings from prior years.

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2017 amounted to CZK 11,777,000 (2016: CZK 10,776,000). The share of wage costs covered by the Deposit Insurance Fund amounts to CZK 10,315,000 (2016: CZK 9,993,000).

In 2017, the auditor Ernst & Young, Audit, s. r. o., was reimbursed for the statutory audit of the financial statements for 2017. The auditor's fee was CZK 363,000 (2016: CZK 315,000). The Deposit Insurance Fund's share of these costs is CZK 318,000 (2016: CZK 310,000).

In 2017, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 93,000 (2016: CZK 78,000) in connection with liability insurance for the members of the Board of Directors and the members of the Management Board for damage caused when exercising their functions. The Deposit Insurance Fund's share of these costs is CZK 82,000 (2016: CZK 72,000).

## The Deposit Insurance Fund

### Financial Statements

Year ended 31 December 2017

### 3.9 Reimbursement of Costs Related to the Management of the Deposit Insurance Fund to the Financial Market Guarantee System

Pursuant to Section 207 (2) of the AFCPR, the Financial Market Guarantee System has the right to the reimbursement of costs incurred in connection with the management of the Deposit Insurance Fund and the Crisis Resolution Fund, and this from the Deposit Insurance Fund and from the Operational Fund of the Fund for Crisis Resolution Fund. In 2017, the Financial Market Guarantee System only incurred costs connected with the management of the two Funds.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2017 totalled 32,371,000 (2016: 30,633,000), of which CZK 29,039,000 (2016: CZK 28,688,000) was expenses related to the management of the Deposit Insurance Fund and CZK 3,332,000 (2016: CZK 1,945,000) was expenses related to the management of the Crisis Resolution Fund.

The expenses related to the management of the Deposit Insurance Fund of CZK 29,039,000 (2016: CZK 28,688,000) were reimbursed to the Financial Market Guarantee System from resources of the Deposit Insurance Fund.

Due to the lack of resources in the Operational Fund of the Crisis Resolution Fund in 2017, the costs related to the management of the Crisis Resolution Fund - comprised of operating expenses, expenses related to securities management and the share of the Crisis Resolution Fund in asset depreciation, totalling CZK 3,831,000 in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of Financial Market Guarantee System - were paid from resources of the Deposit Insurance Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund against the Crisis Resolution Fund. This receivable will be paid to the Deposit Insurance Fund from the Operational Fund of the Crisis Resolution Fund after approval of the 2017 financial statements and after completion of the transfer of the 2017 investment income to the Operational Fund of the Crisis Resolution Fund. A portion of the assets of the Operational Fund of the Crisis Resolution Fund totalling CZK 1,945,000 will be used to settle the receivable arising in 2016. The remaining balance of assets in the Operational Fund of the Crisis Resolution Fund will stand at CZK 736,000, which can be used for expenses related to the management of the Crisis Resolution Fund in subsequent years.

### 3.10 Litigation

The following three actions were filed against the original Deposit Insurance Fund in 2010 and 2011:

#### **Claimant TALIAATELLA HOLDINGS LIMITED (previously Conroe Consulting Services Limited)**

On 18 December 2010, an action was filed against the Deposit Insurance Fund (since 2016, the Financial Market Guarantee System) by Conroe Consulting Services Limited, with its registered office at 46/2, South Street, Valleta VLT 1101 Malta, **seeking the payment of CZK 1,561,731,947 including accessions. The action was filed with the District Court for Prague 1 with reference 18 C 364/2010. The claimant sought the awarding of damages in the above-mentioned amount that had allegedly arisen from the defendant failing to disburse**, in accordance with Act No. 443/2006 Coll., the Act on Compensation, as amended until 2 March 2007, **additional compensation of insured deposits with Kreditní banka Plzeň, a.s. within the statutory period.** However, at the time, the Deposit Insurance Fund proceeded in line with the Act on Banks and failed to disburse the compensation because the Czech National Bank - in agreement with the Ministry of Finance of the Czech Republic - had extended the period for compensation disbursement. The relevant part of the above-mentioned Act on Compensation was subsequently repealed by a ruling of the Constitutional Court of the Czech Republic dated 15 February 2007, effective from

The Deposit Insurance Fund

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Financial Statements

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Year ended 31 December 2017

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2 March 2007. During proceedings, the original claimant's alleged claim was assigned to new claimant **TALIAELLA HOLDINGS LIMITED**.

**The action was dismissed by a judgment issued by the District Court for Prague 1 on 2 May 2012 with reference 18 C 364/2010-80 and it was ordered that the defendant would be reimbursed for the costs of the case. The judgment of the first instance court to dismiss the action was upheld by a judgment issued by the Municipal Court in Prague, acting as the court of appeal in the case, on 27 January 2014 with reference 22 Co 505/2012.**

**On 20 August 2015, the District Court for Prague 1 issued a European Enforcement Order - the certificate confirming a judgement. At the current time the costs of the proceedings are being sought from the claimant.**

#### **Claimant ASSETWISE LIMITED**

On 30 August 2011, ASSETWISE LIMITED, ID No.: HE 284286, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, P. C. 6042 Larnaca, the Republic of Cyprus, filed an action against the Deposit Insurance Fund (since 2016, the Financial Market Guarantee System), **seeking the payment of CZK 1,406,963,367, including accessions. The claim was allegedly based on the provisions of part two of Article III (4) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking financial compensation. Nevertheless, the essence of the dispute is similar to that in the dispute with TALIAELLA HOLDINGS LIMITED.**

The proceedings were conducted before the District Court for Prague 1 with reference 68 C 85/2012. **The above court dismissed the action by a judgment of 30 March 2016 with reference 68 C 85/2012-203 and ordered that the defendant would be reimbursed for the costs of the case. The judgment of the first instance court to dismiss the action was upheld by a judgment issued on 24 October 2017 by the Municipal Court in Prague, acting as the court of appeal in the case. Upon delivery of the above judgment, the proceedings were terminated as a final judicial decision. However, it cannot be ruled out that the claimant will file a special appeal with the Supreme Court. At the current time the costs of the proceedings are being sought from the claimant.**

#### **Claimant MERKURIO PANAMA S.A. (previously VALSPRING HOLDINGS LIMITED)**

On 30 August 2011, VALSPRING HOLDINGS LIMITED, ID No.: HE 235682, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, Post Code 6042, Larnaca, the Republic of Cyprus, filed an action against the Deposit Insurance Fund (since 2016, the Financial Market Guarantee System), **seeking the payment of CZK 1,621,470,327, including accessions. The claim was allegedly based on the provisions of part two of Article III (1) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking the payment of additional compensation. Nevertheless, the essence of the dispute is similar to that in the dispute with TALIAELLA HOLDINGS LIMITED. As a result of the assignment of the alleged claim, the original claimant was replaced during the proceedings by MERKURIO PANAMA S.A., with its registered office in the Republic of Panama, Panama, 50th Avenue, Global Bank Tower, 18th floor, Office 1801. The proceedings were conducted before the District Court for Prague 1 with reference 42 C 208/2012.**

**The District Court for Prague 1 dismissed the action by a judgment of 29 May 2013 with reference 42 C 208/2012-155 and ordered that the defendant would be reimbursed for the costs of the case. The judgment of the first instance court to dismiss the action was upheld by a judgment issued on 14 September 2015 with reference 53 Co 420/2013-288 by the Municipal Court in Prague, acting as the court of appeal in the case. The claimant's special appeal against the above judgments was rejected by a resolution of the Supreme Court of 26 October 2016 with reference 29 Cdo 1052/2016-318. At the current time the costs of the proceedings are being sought from the claimant.**

The Deposit Insurance Fund

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Financial Statements

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Year ended 31 December 2017

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### 3.11 Subsequent Events

No events took place after the balance sheet date which could have a material impact on the Deposit Insurance Fund financial statements as of 31 December 2017.

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

Prague, 13 June 2018



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager

# X CRISIS RESOLUTION FUND

## INDEPENDENT AUDITOR'S REPORT



## *Independent auditor's report*

### **to the Board of Directors of Garanční systém finančního trhu**

#### *Opinion*

We have audited the accompanying financial statements of Fond pro řešení krize, with its registered office at Týn 639/1, Praha ("the Fund") prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017 and the income statement for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2017 and of its financial performance for the year then ended in accordance with Czech accounting legislation.

#### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund and the company Garanční systém finančního trhu (Fund manager) in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body of Garanční systém finančního trhu is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Fund obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Fund obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

#### *Responsibilities of the Statutory Body and the Board of Directors of Garanční systém finančního trhu for the Financial Statements*

The Statutory Body of Garanční systém finančního trhu is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Statutory Body of Garanční systém finančního trhu determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*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](http://www.pwc.com/cz)*

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**The Board of Directors of Garanční systém finančního trhu  
Independent auditor's report**

In preparing the financial statements, the Statutory Body of Garanční systém finančního trhu is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.
- Conclude on the appropriateness of the Statutory Body's of Garanční systém finančního trhu use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body and the Board of Directors of Garanční systém finančního trhu regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13 June 2018

represented by partner

Petr Kříž  
Statutory Auditor, Evidence No. 1140

Note

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

# FINANCIAL STATEMENTS

## Crisis Resolution Fund

Date of financial statements:	31/12/2017
Date of preparation of financial statements:	13/6/2018

## Balance Sheet as of 31 December 2017 (CZK '000)

ASSETS	As of 1 January 2017	As of 31 December 2017
<b>A. Total fixed assets</b>	<b>0</b>	<b>21</b>
<b>II. Tangible fixed assets</b>	<b>0</b>	<b>21</b>
Works of art, objects and collections	0	21
<b>B. Total current assets</b>	<b>2,958,882</b>	<b>5,990,292</b>
<b>III. Total current financial assets</b>	<b>2,958,882</b>	<b>5,990,292</b>
Financial resources on accounts	2,958,882	5,990,292
<b>Total assets</b>	<b>2,958,882</b>	<b>5,990,313</b>



Crisis Resolution Fund

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(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2017</b>	<b>As of 31 December 2017</b>
<b>A. Total equity</b>	<b>2,956,937</b>	<b>5,984,538</b>
<b>I. Equity – funds</b>	<b>2,958,882</b>	<b>5,983,802</b>
Contribution Fund	2,958,882	5,983,802
<b>II. Total profit/loss</b>	<b>-1,945</b>	<b>736</b>
Profit/loss account	0	2,681
Profit/loss in approval process	-1,945	0
Accumulated losses	0	-1,945
<b>B. Total liabilities</b>	<b>1,945</b>	<b>5,775</b>
<b>III. Total current payables</b>	<b>1,945</b>	<b>5,775</b>
Other payables	1,945	5,775
<b>Total equity and liabilities</b>	<b>2,958,882</b>	<b>5,990,313</b>

## Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2017

Profit and Loss Account for the year ended 31 December 2017  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I. Consumed purchases and purchased services</b>	<b>1,236</b>	<b>0</b>	<b>1,236</b>
1. Consumption of material	61	0	61
3. Repairs and maintenance	4	0	4
4. Travel expenses	160	0	160
5. Representation expenses	19	0	19
6. Other services	992	0	992
<b>III. Personnel costs</b>	<b>1,987</b>	<b>0</b>	<b>1,987</b>
10. Wages and salaries	1,462	0	1,462
11. Statutory social security insurance	454	0	454
13. Statutory social expenses	46	0	46
14. Other social expenses	25	0	25
<b>IV. Taxes and fees</b>	<b>1</b>	<b>0</b>	<b>1</b>
<b>V. Other expenses</b>	<b>588</b>	<b>0</b>	<b>588</b>
19. Foreign exchange losses	1	0	1
22. Sundry other expenses	587	0	587
<b>Total expenses</b>	<b>3,812</b>	<b>0</b>	<b>3,812</b>

## Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2017

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV. Other revenues</b>	<b>6,493</b>	<b>0</b>	<b>6,493</b>
7. Interest revenue	6,490	0	6,490
8. Foreign exchange gains	3	0	3
<b>Total revenues</b>	<b>6,493</b>	<b>0</b>	<b>6,493</b>
<b>C. Profit/loss before tax</b>	<b>2,681</b>	<b>0</b>	<b>2,681</b>
<b>D. Profit/loss after tax</b>	<b>2,681</b>	<b>0</b>	<b>2,681</b>

Within the meaning of Section 5a (1) of Decree No. 504/2002 Coll., as amended, the Financial Market Guarantee System performed only the main activities for which it was established in terms of the management of the Crisis Resolution Fund. Nor did the Financial Market Guarantee System perform any economic activity within the meaning of Section 5a (2) of the Decree (additional, secondary, business or other activity outside the main activity).

## Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2017

**1** General Information

The Crisis Resolution Fund is an accounting unit managed by the Financial Market Guarantee System, which is a legal person governed by public law, which was established under its original name the Deposit Insurance Fund by Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks, in its then valid version. Through Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System on 1 January 2016.

The identification number of the Financial Market Guarantee System is 497 10 362. Based on Act No. 586/1992 Coll., on Income Taxes, as amended, the income of the Financial Market Guarantee System is exempt from income tax. The registered office of the Financial Market Guarantee System is Prague 1, Týn 639/1.

Under legislation effective from 1 January 2016, the Management Board of the Financial Market Guarantee System is its statutory body. The Board of Directors remains the supreme body of the Financial Market Guarantee System with the powers listed in Section 201 of Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended.

The mission of the Financial Market Guarantee System is the operation of the deposit insurance system in the Czech Republic, including the management of the Deposit Insurance Fund (Section 41a et seq., Act No. 21/1992 Coll., on Banks, as amended) and the management of the Crisis Resolution Fund (Section 209 et seq., Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended). By performing these activities, the Financial Market Guarantee System contributes to the stability of the financial market.

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

With effect from 1 January 2016, based on Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution (the "AFCPR"), the Deposit Insurance Fund was transformed into the Financial Market Guarantee System. This was not a "transformation" of a legal person within the meaning of Section 174 et seq. of Act No. 89/2012 Coll., the Civil Code (i.e. in the sense of a merger, division or change of legal form), but only a "change" consisting in particular of: a) a name change (Section 252 of the AFCPR), b) a change to the organisational structure (Section 199 et seq. of the AFCPR - a change to the statutory body, a listing of the powers of the Board of Directors, etc. and c) an extension of the scope of activity (Section 198 of the AFCPR, on the management of assets in the Crisis Resolution Fund). We thus cannot speak of legal succession because there has been no transition of rights and obligations, and the legal person (holder of rights and obligations) has been retained (the same identification number).

**1.2** Managed Funds (Nonentities)

In view of the retention of continuity of legal personality (the original Deposit Insurance Fund has changed into the Financial Market Guarantee System), while the funds managed by the Financial Market Guarantee System (the Deposit Insurance Fund and the Crisis Resolution Fund) have no legal personality (Section 198 (4) of the AFCPR), it is necessary to differentiate the Deposit Insurance Fund until 31 December 2015 (legal personality, change into the Financial Market Guarantee System) and the Deposit Insurance Fund from 1 January 2016 (nonentity made up of part of the assets of the Financial Market Guarantee System).

While the new nonentity Deposit Insurance Fund was de facto established by law on 1 January 2016 (see Section 254 of the AFCPR on allocation of assets and debts to the Deposit Insurance Fund), the Crisis Resolution Fund was established on the basis of

Crisis Resolution Fund

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Year ended 31 December 2017

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Section 209 (1) of the AFCPR through the Statute of the Financial Market Guarantee System on 12 January 2016 (Article 5 of the Statute of the Financial Market Guarantee System).

### 1.3 Assets Placed in Funds

Section 198 (2) of the AFCPR states that the Financial Market Guarantee System manages assets created by the Deposit Insurance Fund, the Crisis Resolution Fund and other assets of the Financial Market Guarantee System. From the legal point of view, therefore, they are always assets of the Financial Market Guarantee System, located a) in the Deposit Insurance Fund, b) in the Crisis Resolution Fund, c) outside of both funds (i.e. not a model of an investment company - mutual fund, when the assets in the mutual fund are not the assets of the investment company).

From the accounting point of view, the Financial Market Guarantee System, the Deposit Insurance Fund and the Crisis Resolution Fund are three separate accounting units, while the assets constituted by the Deposit Insurance Fund, the assets constituted by the Crisis Resolution Fund and other assets of the Financial Market Guarantee System are kept separately in asset and accounting terms (Section 205 and Article 198 (2) of the AFCPR). Each of the accounting units has its own financial statements and their preparation is ensured by the Financial Market Guarantee System.

The Crisis Resolution Fund had no assets at the time of its establishment.

Crisis Resolution Fund

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Financial Statements

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Year ended 31 December 2017

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## 2 **D** Accounting Policies

### 2.1 **D** Bookkeeping

The Financial Market Guarantee System provides accounting for the management of the Crisis Resolution Fund pursuant to Act No. 563/1991 Coll., on Accounting, as amended (the "Act on Accounting"), Implementing Decree No. 504/2002 Coll., implementing some provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units whose main business activity is not commercial business, if they use double-entry bookkeeping, as amended (the "Decree") and other legislation governing bookkeeping, and in accordance with the accounting methods specified therein.

The Crisis Resolution Fund is a separate accounting unit ("accounting unit").

The Financial Market Guarantee System records the status and movement of assets and liabilities, costs and revenues, and profit or loss of the Crisis Resolution Fund. The accounting for the subject of accounting is performed in ledgers kept separately for the Crisis Resolution Fund in a way that allows for the preparation of financial statements for the Crisis Resolution Fund.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System performs the management of the Crisis Resolution Fund and that the Financial Market Guarantee System is entitled and bound by the legal relationships. From the point of view of the accounting, all the accounting documents (as well as the electronic registry service) will be recorded in the Financial Market Guarantee System.

The Statute of the Financial Market Guarantee System states that the Financial Market Guarantee System manages the Deposit Insurance Fund and the Crisis Resolution Fund (the "Funds") and that all activity is tied to the management of the Funds. In terms of the bookkeeping, all expenses, revenues, costs, income, receivables and payables are items for the individual Funds. The Financial Market Guarantee System, as a legal person, maintains all these accounting cases in its accounts and materially assigns them to the individual Funds.

### 2.2 **D** System of Accounting and Retention of Accounting Documents

The Financial Market Guarantee System maintains full accounts for the Crisis Resolution Fund and uses double-entry accounting for the status and movement of property and other assets, payables, including debts and other liabilities, costs and revenues, and profit or loss.

It uses double-entry records for facts that are the subject of their accounts until the period to which they relate in time and in fact.

The accounting period for the Crisis Resolution Fund is the calendar year.

The bookkeeping for the Crisis Resolution Fund has been kept since its establishment on 12 January 2016.

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

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The bookkeeping is maintained as a set of accounting records using technical means, data carriers and software. An accounting record is data that are a record of all the facts relating to the maintenance of the accounts. Accounting units must record every fact relating to the maintenance of accounts exclusively through accounting records. Individual accounting records may be grouped into aggregate accounting records; such accounting records are in particular accounting documents, accounting entries, ledgers, the depreciation plan, inventory listings, accounting plans, financial statements and the annual report.

The bookkeeping is maintained in monetary units of the Czech currency.

The bookkeeping is maintained in the Czech language. Accounting documents may be drawn up in a foreign language only if the condition of comprehensibility is fulfilled.

Facts that are the subject of the accounts ("accounting cases") are captured through accounting documents.

Accounting cases are recorded in ledgers ("accounting entries") only on the basis of probative accounting records.

The bookkeeping is kept in such a way that the financial statements prepared on its basis are comprehensible and provide a true and fair view of the accounting unit's accounts and financial situation.

The bookkeeping is kept in a correct, complete, probative, comprehensible, clear manner that ensures the continuity of the accounting records.

The bookkeeping is kept in a way that ensures the continuity of the accounting records so that the accounting unit complies with its obligations relating to their retention under the Act on Accounting.

The Financial Market Guarantee System assigns another person to process the accounts of the accounting unit on the basis of a contractual relationship in accordance with Section 5 of the Act on Accounting.

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### 2.3 Scope of Bookkeeping, Accounting Documents, Accounting Records and Ledgers

The Financial Market Guarantee System maintains separate bookkeeping for the Crisis Resolution Fund in full scope.

The accounting documents are probative accounting records that must include:

- identification of the accounting document,
- the content of the accounting case and its participants,
- the monetary amount or information on the price per unit of measurement and an indication of the quantity,
- the moment of preparation of the accounting document,
- the moment of performance of the accounting case, if not identical to the moment of the preparation of the accounting document,
- the signature record of the person responsible for the accounting case and the signature record of the person responsible for its posting.

The accounting documents are prepared without undue delay.

The accounting entries are accounting records in ledgers.

They are posted in the following ledgers:

- in the journal(s) in which the accounting entries are organized in terms of time (chronologically) and which show the accounting of all the accounting cases in the accounting period,
- in the main ledger in which the accounting entries are organized on a factual (systematic) basis,
- in the books of analytical accounts detailing the accounting records of the main ledger.

### 2.4 Plan of Accounts

The plan of accounts is prepared for each accounting period within the meaning of the guideline chart of accounts, accounting methods, organization and marking of the items of financial statements, and the content definition of those items determined in the Decree. During the accounting period, an accounting unit may supplement the plan of accounts.

The amounts in the analytical accounts books must correspond to the relevant aggregate cash amounts of the turnover or balance of the synthetic accounts to which these accounts are connected.

### 2.5 Financial Statements, Accounting Audit

Before the preparation of the financial statements, an inventory is performed.

The financial statements are an inseparable whole and comprise:

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



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## 2.6 Storage of Accounting Documents

The Executive Director of the Financial Market Guarantee System is responsible for the organization of the storage of accounting documents, and may designate the person responsible for the execution of the storage of the accounting documents. The archiving of accounting documents is performed according to the Archiving and Shredding Rules.

## 2.7 Accounting Methodological Guidelines

Accounting methodological guidelines are prepared to comply with Directive No. 22 - Bookkeeping, in accordance with the Accounting Act and other statutory regulations.

The accounting methodological guidelines are approved by the Financial Market Guarantee System Board of Directors.

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

## 2.8 Assignment Procedures for Accounting Cases

### 2.8.1 Accounting Cases Directly Assignable to the Funds

2.8.1.1 These cases are charged by the Financial Market Guarantee System and directly assigned - posted - to the relevant Fund accounts.

2.8.1.2 These cases include, in particular, received contributions to the Funds and the investment of the financial reserves. Individual bank accounts are set up for the allocation of the contributions to the individual Funds. These accounts may also be used for investing assets in the individual Funds, unless separate bank accounts are established for this purpose. Accounting cases directly assignable to the Funds also include other accounting cases on these bank accounts, such as interest accrued or fees related to the management of these accounts.

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**2.8.2 Other Accounting Cases** (for example, received invoices for rent, legal services, accounting, wages, depreciation, etc.)

2.8.2.1 Directly assignable accounting documents for individual funds that arise from invoicing (e.g. portfolio management fees), or where there is another possibility of direct assignment (for example, an annex with a breakdown of the purpose of legal representation by Fund for legal services). The Financial Market Guarantee System attributes and charges to the relevant Fund accounts according to the supporting criteria established from the accounting case.

2.8.2.2 In the event common accounting cases cannot be assigned to individual Funds under paragraph 2.8.2.1, this assignment will be made at a ratio determined as follows:

- a) To calculate the ratio of costs for managing the individual Funds, the cost-to-work ratio method is used for each Fund in the staff statements of work. Staff at the Financial Market Guarantee System prepare statements of work on a monthly basis.
- b) The ratio of the activities performed for each Fund will be calculated as of 31 December.
- c) The annual ratio calculated under point 2.8.2.2 (b) will be used to account for the advance ratio and will be balanced according to the actual status as of 31 December of the current year.
- d) The annual ratio calculated under point 2.8.2.2 (b) will be used to determine the advance ratio for the following accounting period. This rule was applied for the first time in the 2017 accounting period.

**2.8.3** The Financial Market Guarantee System proceeds with the assignment of expenses similarly to in paragraphs 2.8.1 and 2.8.2, for example, when paying for the purchase of technical equipment, when paying an advance for a future performance, when calculating anticipated costs or income, when paying a deposit or similar performances.

**2.9** Providing Advances from the Crisis Resolution Fund for the Operating Costs of the Financial Market Guarantee System

The Financial Market Guarantee System incurs costs connected with the management of the Crisis Resolution Fund.

Expenditure related to the management of the Crisis Resolution Fund is covered from the Operational Fund of the Crisis Resolution Fund.

The Financial Market Guarantee System shall establish the budget of all accounting units prior to the start of the current year, and at the same time determine the amount of advances to be provided from the Crisis Resolution Fund to cover operating costs. Advances can be provided in instalments.

After the end of the accounting period, advances are settled with actual costs.

Receivables and payables between the managed accounting units from the title of the payment of operating costs are subject to an inventory during the preparation of the financial statements.

**2.10** Basic Principles for Preparing the Financial Statements

The financial statements are compiled in accordance with accounting regulations applicable in the Czech Republic and with Czech Accounting Standards for units that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for securities held for trading, which are recognised at fair value, and securities held to maturity, which are valued at

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amortised costs. The financial statements are compiled on the assumption that the unit is able to continue as a going concern. The amounts in the financial statements and in the notes thereto are rounded to thousands of Czech korunas unless stated otherwise.

## 2.11 Tangible Fixed Assets

Purchased fixed tangible assets are recognised at acquisition cost, which includes the price for which the assets were acquired and the expenses relating to the acquisition.

The depreciation of fixed tangible assets was calculated using the straight-line depreciation method, based on the estimated useful life of the assets. The depreciation period for personal computers, servers, printers etc. is 3 years. The depreciation period for passenger cars is 5 years. The depreciation period for strongboxes is 10 years. Works of art are not subject to depreciation.

Repair and maintenance expenses on fixed tangible assets are charged directly to expenses.

Tangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 40 000 per item are charged directly to expenses once they are put into use.

The amortisation of fixed intangible assets was calculated using the straight-line amortisation method over 3 years.

Intangible assets with a useful life of more than one year and acquisition cost not exceeding CZK 60 000 per item are charged directly to expenses once they are put into use.

## 2.12 Securities and Shares

Securities and shares are classified as securities held for trading and securities held to maturity.

### **Securities Held for Trading:**

Securities held for trading are securities held by the Financial Market Guarantee System for the Crisis Resolution Fund for the purpose of transactions aimed at generating profit from price differences in the short term.

When purchased, securities and shares are recognised at acquisition cost, including transaction expenses. Securities held for trading are measured at fair value. The market value of securities as of the balance sheet date is used to calculate the fair value. The valuation of securities not traded on public markets is based on an expert opinion or a qualified estimate made by the Financial Market Guarantee System.

Interest income from securities held for trading is recognized as Income from short-term assets.

Profit and loss arising from changes in the fair value of securities held for trading are recognised in the profit and loss account in the period in which they arise.

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### **Securities Held to Maturity:**

Securities held to maturity are non-derivative financial assets with a fixed or predefined yield and fixed maturity, where there is the intention and ability to hold until their maturity.

When purchased, securities held to maturity are recognised at acquisition cost, including transaction expenses, and subsequently valued at amortised costs.

Interest income from securities held to maturity includes accrued coupons, discounts and premiums on debt securities and is recognised as 'Interest revenue'.

### **Repo and Buy/Sell Operations:**

Collateralized receivables as part of repo and buy-sell transactions are reported under 'Other receivables', including accrued interest. Interest from these transactions is recorded on an accruals basis for the duration of such a transaction and recognised as interest revenue.

## 2.13 Foreign Currency Conversions

Transactions carried out in foreign currencies are converted and posted at the exchange rate valid on the transaction date. All monetary assets and liabilities maintained in foreign currencies were converted at the exchange rate published by the Czech National Bank as of the balance sheet date. All foreign exchange gains and losses arising from the conversion of receivables and payables are recognised in the profit and loss account and are reported under 'Foreign exchange gains' and 'Foreign exchange losses'.

## 2.14 Contributions Received from Banks

Contributions to the Crisis Resolution Fund are posted to the Contribution Fund of the Crisis Resolution Fund. The amount of contributions is determined by the Czech National Bank by 1 May of the respective year for which the contributions are paid, and are due within the deadline set by the Czech National Bank.

## 2.15 Adjustments and Provisions

The Crisis Resolution Fund does not create adjustments, nor does it account for them in accordance with Section 37 (1) of Decree of the Ministry of Finance of the Czech Republic No. 504/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for accounting units that are not primarily engaged in business activity if they use a double-entry accounting system. The Crisis Resolution Fund neither creates nor accounts for provisions in accordance with Section 40 (1) of the above-mentioned Decree.

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#### 2.16 Equity/Funds

Based on a decision of the Board of Directors, the financial result (profit or loss from the current year) is transferred to Retained earnings / Retained losses from prior years or to the Funds item within the framework of the own resources of the Crisis Resolution Fund. The subsequent transfer of retained earnings prior years from the retained earnings / accumulated losses of previous years item to the Funds item is possible again if the Board of Directors so decides.

#### 2.17 Use of Estimates

The preparation of the financial statements requires the use of estimates and assumptions that influence the recognised values of assets and liabilities as of the date of the financial statements, and the recognised amounts of revenues and expenses for the reporting period. The Crisis Resolution Fund has defined these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, the inherent nature of estimates means that the actual future values may differ from these estimates.

#### 2.18 Subsequent Events

The impact of events that occurred between the balance sheet date and the date of preparation of the financial statements is reported in the accounting reports if such events provide additional information about facts that existed as of the balance sheet date.

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

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**3** Additional Information on the Balance Sheet and Profit and Loss Account**3.1** Short-Term Financial Assets

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

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

The Crisis Resolution Fund has no registered capital. Its equity consists of a funds account and its profit/loss.

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

(CZK '000)	2017	2016
<b>Crisis Resolution Fund:</b>		
Opening balance – 1 January	2,958,882	0
Contributions received (see note 3.4.)	3,024,920	2,958,882
<b>Closing balance – 31 December</b>	<b>5,983,802</b>	<b>2,958,882</b>

**3.3** Liabilities

A liability of the Crisis Resolution Fund to reimburse costs connected with the management of the Crisis Resolution Fund against the Deposit Insurance Fund of CZK 5,775,000 (2016: CZK 1,945,000). None of the liabilities are past due.

**3.4** Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.15.).

(CZK '000)	2017	2016
Contributions received from banks	3,024,920	2,958,882

In the period April - June 2017, banks and selected investment firms made contributions to the Crisis Resolution Fund, as prescribed by the Czech National Bank, totalling CZK 3,024,920,000 (2016: CZK 2,958,882,000).

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

(CZK '000)	2017	2016
<b>Revenues:</b>		
Interest revenue	6,490	0
Foreign exchange gains	3	0
<b>Total</b>	<b>6,493</b>	<b>0</b>
<b>Expenses:</b>		
Purchases consumed	-61	-41
Services	-1,175	-731
Personnel costs	-1,987	-1,068
Taxes and fees	-1	-1
Foreign exchange losses	-1	-2
Other expenses (see note 3.8.)	-587	-102
<b>Total</b>	<b>-3,812</b>	<b>-1,945</b>

The profit/loss for the year 2017 will be distributed as follows: the revenues of CZK 6,493,000 will be transferred to the Operational Fund of the Crisis Resolution Fund and the expenses of CZK 3,812,000 will be paid for after approval of the financial statements as part of the settlement of receivables of the Deposit Insurance Fund from the Crisis Resolution Fund.

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## 3.6 Other Revenues and Other Expenses

(CZK '000)	2017	2016
<b>Expenses:</b>		
Other	-587	-59
<b>Total</b>	<b>-587</b>	<b>-59</b>

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2017 amounted to CZK 11,777,000 (2016: CZK 10,776,000). The share of wage costs covered by the Crisis Resolution Fund amounts to CZK 1,462,000 (2016: CZK 783,000).

In 2017, the auditor Ernst & Young, Audit, s. r. o., was reimbursed for the statutory audit of the financial statements for 2017. The auditor's fee was CZK 363,000 (2016: CZK 315,000). The Crisis Resolution Fund's share of these costs is CZK 45,000 (2016: CZK 5,000).

In 2017, members of the Board of Directors and Management Board of the Financial Market Guarantee System were provided with non-cash performances totalling CZK 93,000 (2016: CZK 78,000) in connection with liability insurance for the members of the Board of Directors and the members of the Management Board for damage caused when exercising their functions. The Crisis Resolution Fund's share of these costs is CZK 11,000 (2016: CZK 6,000).



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### 3.7 Reimbursement of Costs Related to the Management of the Crisis Resolution Fund of the Financial Market Guarantee System

Pursuant to Section 207 (2) of the AFCPR, the Financial Market Guarantee System has the right to the reimbursement of costs incurred in connection with the management of the Deposit Insurance Fund and the Crisis Resolution Fund, and this from the Deposit Insurance Fund and from the Operational Fund of the Fund for Crisis Management. In 2017, the Financial Market Guarantee System only incurred costs connected with the management of the two Funds.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2017 totalled 32,371,000 (2016: 30,633,000), of which CZK 29,039,000 (2016: CZK 28,688,000) was expenses related to the management of the Deposit Insurance Fund and CZK 3,332,000 (2016: CZK 1,945,000) was expenses related to the management of the Crisis Resolution Fund.

The expenses related to the management of the Deposit Insurance Fund of CZK 29,039,000 (2016: CZK 28,688,000) were reimbursed to the Financial Market Guarantee System from resources of the Deposit Insurance Fund.

Due to the lack of resources in the Operational Fund of the Crisis Resolution Fund in 2017, the costs related to the management of the Crisis Resolution Fund, comprised of operating expenses, expenses related to securities management and the share of the Crisis Resolution Fund in asset depreciation, totalling CZK 3,831,000 in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of Financial Market Guarantee System were paid from resources of the Deposit Insurance Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund against the Crisis Resolution Fund. This receivable will be paid to the Deposit Insurance Fund from the Operational Fund of the Crisis Resolution Fund after approval of the 2017 financial statements and after completion of the transfer of the 2017 investment income to the Operational Fund of the Crisis Resolution Fund. A portion of the assets of the Operational Fund of the Crisis Resolution Fund of CZK 1,945,000 will be used to settle the receivable arising in 2016. The remaining balance of assets in the Operational Fund of the Crisis Resolution Fund will stand at CZK 736,000, which can be used for expenses related to the management of the Crisis Resolution Fund in subsequent years.

### 3.8 Subsequent Events

No events took place after the balance sheet date which could have a material impact on the Crisis Resolution Fund financial statements as of 31 December 2017.

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

Prague, 13 June 2018



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager