

# ANNUAL REPORT

for 2018



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# I INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



2018 was the third year of existence of the Financial Market Guarantee System, an institution that manages the Deposit Insurance Fund and the Crisis Resolution Fund. It again brought many challenges, with the most significant being to ensure readiness for Regulation (EU) 2016/679 of the European Parliament and of the Council, best

known under its acronym GDPR and which came into force in May 2018, and to perform another round of stress tests prescribed by the European Banking Authority, this time with an international aspect.

With a stable situation on the financial market in 2018, as in 2017, no disbursement of deposit compensation was started and thus the Financial Market Guarantee System only carried on with the disbursements to clients of ERB bank, a.s., which commenced in 2016 and which will be terminated in October 2019. This was directly reflected in the financial resources of the Deposit Insurance Fund, which decreased only by the disbursed compensation totalling CZK 25.4 million and, conversely, increased by more than CZK 1 billion thanks to the regular contributions from the banks and cooperative credit unions participating in the deposit insurance system. At the end of 2018, the Deposit Insurance Fund had a reserve of CZK 31.7 billion, i.e. significantly above the regulatory target threshold (0.8% of covered deposits). For banks and cooperative credit unions, this means that their contributions prescribed for 2019 will be again at a reduced rate corresponding in total to 0.045% of the volume of covered claims from deposits.

The Crisis Resolution Fund, which was established in 2016 and which is also managed by the Financial Market Guarantee System, has not been used yet and has been gradually increasing its capacity. As a result of the contributions made in 2018, which totalled CZK 3.11 billion, the total reserve of the Crisis Resolution Fund exceeded CZK 9 billion.

Without doubt, GDPR was one of the most frequently mentioned acronyms of 2018. The protection of data in general and of personal data in particular is one of the priorities of the Guarantee System. This was one of the reasons why the previous year was characterised by the completion of the implementation of new rules in this area. To ensure compliance with the GDPR, a new internal regulation on

personal data protection was adopted and, at the same time, all activities that involve personal data processing and all documents that contain personal data were remapped. As a follow-up to these measures, records of personal data processing activities were prepared in accordance with Article 30 of the Regulation and a data protection officer appointed with effect from 1 May 2018. Last but not least, agreements on personal data processing were signed with suppliers who perform activities involving personal data processing for the Financial Market Guarantee System.

Based on the schedule of stress tests according to the instructions of the European Banking Authority, 2018 saw the successful completion of the second stress test, this time focusing on cross-border cooperation, namely with Slovakia's Deposit Protection Fund (Fond ochrany vkladov). The result confirmed the functionality of the deployed mechanisms and readiness for cross-border compensation disbursements.

As regards asset management, 2018 saw the completion of the acquisition of the bond portfolio of the Deposit Insurance Fund, originally managed by an investment manager, into the full in-house management of the Financial Market Guarantee System. The Guarantee System expects that the in-house management of the financial reserves will primarily lead to a reduction in management costs.

So 2018 was another year full of challenges, which could not have been tackled without the professional team of employees of the Financial Market Guarantee System. Here, I would like to thank them once again for their dedication and commitment throughout 2018. I would also like to say thank you to the members of the Board of Directors, who, in addition to the duties they have from their jobs, whether at the Ministry of Finance of the Czech Republic, at the Czech National Bank or at the Czech Banking Association, have devoted their time to the tasks of the Financial Market Guarantee System.

I can conclude that the Financial Market Guarantee System dealt successfully with all the challenges it faced in 2018 and demonstrated that it is a reliable component of the financial safety net. I can say with a clear conscience that it is fully ready to face the new challenges we will encounter in the coming years.

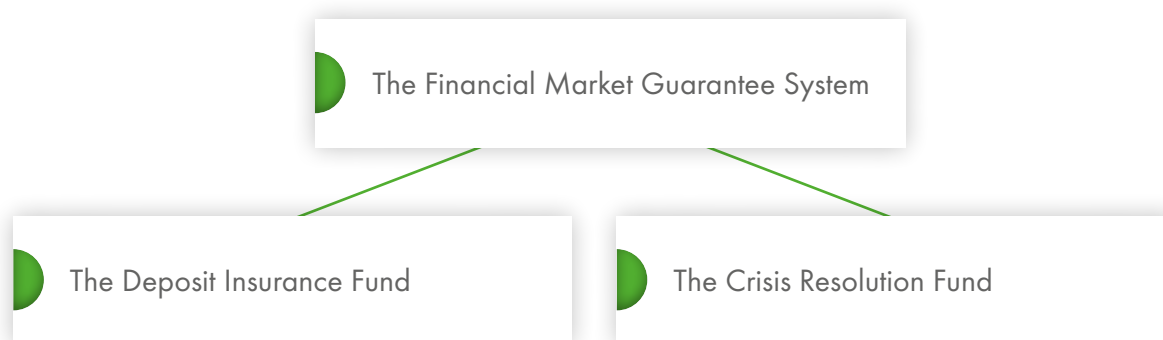
Dušan Hradil  
Chairman of the Board of Directors  
of the Financial Market Guarantee System

## 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. As of this date, the Deposit Insurance Fund became an accounting unit managed by the Financial Market Guarantee System, similarly to the newly established 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 an accounting unit managed by the Financial Market Guarantee System. 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 an accounting unit managed by the Financial Market Guarantee System. 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. In 2018, the term of office expired for Mr Staňura, who was reappointed as a member of the Board of Directors for a period of 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 2018

**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

**Vladimír Staňura**  
*Term of office: until 2024*  
 Advisor to the President of the Czech Banking Association

#### Members of the Management Board of the Financial Market Guarantee System in 2018

**Chairperson** **Renáta Kadlecová**  
 Executive Director

**Member** **Tomáš Hejduk**  
 Chief Legal Manager

**Roman Kahánek**  
 Finance Manager

## IV ACTIVITIES OF THE FINANCIAL MARKET GUARANTEE SYSTEM IN 2018

### Macroeconomic Developments in the Czech Republic in 2018, Macroeconomic and Regulatory Environment of the Insured Institutions

2018 can be viewed as a continuation of the economic success from the previous period, although there was a slight deceleration in growth compared to 2017. The Czech National Bank continued to raise its interest rates and the financial sector as a whole again confirmed its satisfactory condition. The Czech National Bank responded to growing signs of the potential existence of systemic risks through its monetary policy, financial stability tools and supervisory measures.<sup>1</sup>

In 2018, gross domestic product grew by 2.9%, which is a decrease of 1.6 percentage points compared to 2017. Significant contributions to this growth were made by investment activity (buildings, machinery, vehicles) and by foreign trade. On the other hand, household consumption made a lower contribution to GDP growth than expected considering the rising wages and the record-low unemployment.

The Czech Republic's state budget closed last year with a slight surplus of CZK 2.9 billion, as opposed to the CZK 50 billion deficit originally approved by Parliament. The positive difference between revenues and expenses increased by CZK 9.1 billion on a year-on-year basis. This is the second-best result for the state budget in the last 23 years. The growing economy and rising wages resulted in the increase of the main budget revenue sources, i.e. tax revenues, including social security contributions, exceeding expectations by approx. CZK 20 billion, as did other revenues (other than EU/FM) also by approx. CZK 20 billion. In 2018, state budget revenues hit a record level of CZK 1.404 trillion, up by CZK 130 billion from 2017. If adjusted on both the revenue and expense side for funding from the EU and FM budgets, the state budget would have posted a deficit of CZK 2.2 billion.

<sup>1</sup> "An assessment of the information that the CNB obtained while performing its macroprudential policy and while supervising financial markets over recent years indicates that 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 12 June 2018.

The general unemployment rate decreased by 0.3 percentage points on a year-on-year basis to 2.1%, thus hitting an all-time low. The number of long-term unemployed also continued to fall, dropping to 34,900.<sup>2</sup> According to Eurostat data, in December 2018 the seasonally unadjusted unemployment rate stood at 2.3%, which was the lowest figure in the EU just like in 2017.

The average annual inflation rate for 2018 was 2.1% (2017: 2.5%), while the inflation rate, expressed as the increase in the consumer price index compared to the same month of the previous year, was 2% in December 2018 (2017: 4%). The year-on-year price increases were mainly driven by higher spending on housing (electricity, rent, water and sewage rates), other goods and services (financial services) and alcoholic beverages and tobacco.

During 2018, the Czech National Bank continued gradual increase of interest rates started in August 2017. As early as at the beginning of last February, the CNB decided to increase the two-week repo rate by 25 basis points to 0.75% and to increase the Lombard rate by 50 basis points to 1.50%. Till the end of 2018, the CNB had made an additional four rate hikes, with the repo rate eventually reaching 1.75%, the Lombard rate attaining 2.75% and the discount rate finishing at 0.75%. At its meeting of 20 December 2018, the CNB decided to keep the rates unchanged, taking into account a macroeconomic forecast indicating that, despite a short-term inflation increase at the beginning of the following year, inflationary pressures would later subside, following a renewed strengthening of the CZK exchange rate and gradual slowdown in wage growth. On the monetary policy horizon, i.e. by the turn of 2019/2020, inflation should have moved from the higher-than-targeted levels close to the Czech National Bank's 2% target.

In 2018, the Czech Republic's banking sector posted a net profit of CZK 82 billion, a year-on-year increase of 9%. This result was mainly driven by a year-on-year increase in net interest income (+15%) with support from rising interest rates and the continued economic growth. The trend of year-on-year declines in impairment losses continued (by 7% year-on-year). The average

<sup>2</sup> Source: Czech Statistical Office

capital ratio of the sector at the end of 2018 stood at 19.63% (a year-on-year increase of 37 basis points).

The satisfactory condition of the banking sector was also confirmed by the Czech National Bank stress tests based on the financial data as of 30 September 2018. Though these tests have shown that in the theoretical case of unfavourable economic developments with a five-year horizon, there would be a significant decrease in the capital ratio of the sector (by 8.8 basis points to 9.9%), however the capital ratio would stay above the regulatory threshold of 8%. However, if banks had not had a voluntary capital surplus at the beginning of the test (3 percentage points), the capital ratio of the entire sector would have dropped below the regulatory threshold. In this context, at its meeting of 29 November 2018, the Bank Board of the Czech National Bank decided to increase the Countercyclical Capital Buffer (CCyB) to 1.75%<sup>3</sup> with effect from 1 January 2020. In its decision, the CNB also took into account the additional potential implications of introducing the concept of expected losses according to IFRS9.

In connection with the transition to the new IFRS9 accounting standard, at the beginning of 2018, the concept of asset classification by incurred losses was replaced by the concept of expected losses. The original classification of the quality of assets into "standard, watch, substandard, doubtful and loss" has been replaced with a division into performing and non-performing exposures. "The intention behind the introduction of this standard, which is based on the concept of expected losses, was to boost the stability of financial institutions through timely and sufficient creation of loan loss provisions. However, IFRS9 may also have a considerable procyclical effect. Following a sudden change in economic conditions that leads to a significant reevaluation of macroeconomic fundamentals, banks need to newly create a large amounts of loan loss provisions. A sharp increase in these provisions may result in significant losses and a decrease in capital".<sup>4</sup>

As early as in 2017, there were stronger signs of systemic risks related especially to rising real estate prices and low interest rates, posing a potential threat of the real estate bubble bursting. In response to these developments, as early as in 2017, the CNB<sup>5</sup> issued its first non-binding recommendation concerning

the management of risks related to the retail loans collateralized with the real estate, by setting a LTV threshold<sup>6</sup> and by prudential assessment of the client's ability to repay and cope with increased stress. However, these recommendations were not legally enforceable.<sup>7</sup> With regard to the fact that the increase in real estate prices<sup>8</sup>, the growing volume of mortgage loans<sup>9</sup> and the related risks of negative impacts of potential real estate bubble bursting continued even in 2018, the Czech National Bank, with effect from 1 October 2018, further detailed and tightened its recommendation from 2017<sup>10</sup> and, at the same time, sought the granting of the necessary statutory powers.

In 2018, cooperative credit unions recorded a rather symbolic profit of CZK 673,000 (in 2017, the sector posted a loss of CZK 80 million). At the end of last year, the share of non-performing exposures in the total portfolio was 23%, which, compared to the banking sector, where this figure stands at 1.67%, still testifies to a significant difference in the quality of assets in the balance sheets of these two sectors. The average capital ratio was 21.67%. 2018 was the third year in which the provisions of the amendment to the Act on Credit Unions were in force for the whole of the year<sup>11</sup>. At the beginning of 2018, the remaining and quite significant provisions of the amendment came into force, limiting the maximum aggregate exposure to economically connected persons or related parties to CZK 30 million and capping the total assets at CZK 5 billion. At the end of last year, Moravský peněžní ústav was given the green light by the Czech National Bank to change its legal form from a cooperative credit union to a joint-stock company and was granted a banking licence. The transformation of this credit union into a bank took effect on 1 January 2019.

<sup>3</sup> CCyB rate developments: 0.5% from 1 January 2017, 1.00% from 1 July 2018, 1.25% from 1 January 2019, 1.5% from 1 July 2019

<sup>4</sup> CNB: Financial Stability Report 2017 / 2018

<sup>5</sup> On this issue the CNB has also published Supervisory Official Statement No. 1/2017

<sup>6</sup> The size of a mortgage loan provided for the purchase of real estate in relation to the estimated value of this property (loan-to-value)

<sup>7</sup> While the amendment was already discussed by Parliament in 2017, the necessary procedure has not been finished because of the end of the election term.

<sup>8</sup> Hypoteční banka-HB Index (the underlying value is 100 as of 1 January 2010): apartment prices 150.2 (+10.8 p.p. year-on-year), house prices 129.1 (+7.2 p.p. year-on-year). Source: [www.hypotecnibanka.cz](http://www.hypotecnibanka.cz)

<sup>9</sup> According to the CNB, in 2018 housing loans reached CZK 232 billion (+15 billion compared to 2017), of which mortgages accounted for CZK 174 billion

<sup>10</sup> Official Information of the Czech National Bank of 12 June 2018

<sup>11</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 2018, the Financial Market Guarantee System completed an above-the-threshold public contract started in 2017 and entitled "Framework Agreement on the Provision of Comprehensive Public Relations Services". The Framework Agreement was signed with one winning bidder on 6 June 2018.

## Information Technologies and Security

As regards IT, there has been a change concerning the provision of security monitoring services used to ensure cyber security for the Financial Market Guarantee System. The operation of the security system used for the purposes of this monitoring is currently partly performed internally, while a contract has also been signed with a new supplier for the support of this system. The server used for this monitoring was also replaced.

In 2018, a Disaster Recovery test was successfully performed at an external site. After the post-test analysis, the decision was made to take additional steps to enable accelerated transition to the backup site in the future, and to further reinforce the security of the Disaster Recovery process. These measures will be implemented in 2019.

2018 saw the first round of the three-year IT audit cycle for the 2018–2020 period with a new IT auditor. Following the recommendations of the IT audit, some system processes and configurations have been adjusted to increase security. Last but not least, the hardware environment of the Financial Market Guarantee System was strengthened and the defence against potential cyber attacks improved.

With regard to the GDPR regulation, which came into force in May 2018, the Financial Market Guarantee System also concentrated on verifying the protection of personal data and ensuring overall compliance with this regulation. A new internal regulation on personal data protection was adopted and the related internal regulations amended. At the same time, all the stored data was reviewed and, based on this review, an overview of the locations of personal data was then prepared and records of personal data processing activities made. With effect from 1 May 2018, a data protection officer was appointed. Last but not least, agreements on personal data processing were signed with suppliers who act as data processors for the Financial Market Guarantee System.

The Electronic Registry Service software was supplemented with support for the automation of the processing of executions with a close link to the Deposit Compensation Disbursements software (Evynal). An in-house application was developed that enables banks to check for themselves the accuracy of the data that they transfer to the Financial Market Guarantee System for testing purposes.

In line with the requirement for mandatory cooperation between deposit insurance systems in the EU when it comes to the disbursement of compensation for deposits kept at foreign bank branches, data transfer and processing tests were carried out with deposit insurance systems in Slovakia (Fond ochrany vkladov), in Poland (Bankowy Fundusz Gwarancyjny) and in Germany (BVR Institutssicherung GmbH).

## 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 2018, within the framework of the European Forum of Deposit Insurers (EFDI), employees of the Financial Market Guarantee System took part in meetings of EFDI committees and working groups, e.g. the EU Committee, the Public Relations and Communications Committee, the Banking Union Working Group, the Stress-Test Working Group, etc. In June 2018, the Financial Market Guarantee System organized a meeting of the EU Committee in Prague. This meeting was also accompanied by a workshop focusing on "Definition of a Deposit". During the workshop, the participants discussed the definition of the term "deposit" in different countries, which products were covered by this definition, how individual countries viewed the insurance of e.g. structured deposits, etc. The outcome of this workshop was a document entitled "EFDI Non-Binding Guidance Paper – Covered Deposits in the EU: Definition and Special Cases", which is available online from the EFDI website.

Just as in the previous year, there was 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 the conclusion of a multilateral agreement on cross-border cooperation prepared by the European Forum of Deposit Insurers, joined by the Financial Market Guarantee System on 29 September 2016, negotiations continued on bilateral specifications supplementing and detailing the conditions of this agreement with deposit insurance schemes from Hungary, Poland, Austria, Germany and Slovakia. At the same time, the meeting held in July 2018 in Madrid decided to resume the activity of working sub-groups which prepared the text of the multilateral agreement and should now revise and possibly further complete the multilateral agreement and the related documentation. Just like in the past, the employees of the Financial Market Guarantee System actively participated in the activities of these working sub-groups.

In 2018, the activities of the International Association of Deposit Insurers continued to focus, inter alia, on discussing new challenges for deposit insurers. This time, the annual conference was hosted by the Bank for International Settlements in Basel. The topic of the conference was "Deposit Insurance and Financial Stability: Recent Financial Topics". Subsequently, a workshop was held focusing on each of the main principles of deposit insurance, during which the individual countries presented, for instance, their experience with cooperation within the framework of the financial safety net. Over the year, numerous other conferences and regional seminars were held.

As regards the building of bilateral relations, at a meeting held in August 2018 in Prague the Financial Market Guarantee System signed a Memorandum of Cooperation with Taiwan's deposit insurance scheme. The goal of the Memorandum is the future cooperation between the two deposit insurance systems, sharing relevant information and the future possibility of mutual study visits to further the understanding of how deposit insurance works in the other country.

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.

Employees of the Guarantee System also participate in the newly established working group of the European Banking Authority, the EBA Task Force, whose task is an expert debate on the current wording and possible amendments to Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes.

## 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 different methods 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 regulation of the Financial Market Guarantee System.

Through long-term and short-term investment strategies, the investment policy determines the method of investing financial reserves. 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 2018 is contained in Chapters VI. Role and Activities in Deposit Insurance in 2018 and VII. Role and Activities in Crisis Resolution in 2018.

## 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 2018 no requests for the provision of information were delivered to it.

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 2018

### 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 used to disburse compensation for deposits of clients of a financial institution the Czech National Bank has labelled 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 2018, deposits at banks, building societies and cooperative credit unions that complied with the insurance conditions totalled CZK 3.74 trillion. A total of 32 financial institutions that held such insured deposits contributed CZK 1,003 million to the Deposit Insurance Fund in 2018.

### Legislation

Activity in deposit insurance is governed by Section 41 a to Section 41 s 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 than a Member State, 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 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 disbursement of compensation for deposits must commence within 7 business days after the Decisive Day.

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).

Insured institutions 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.

The amendment to Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, as amended (the "Act on Recovery Procedures"), effective from 1 October 2018, has led, inter alia, to improved effectiveness of the internal approval procedures of the Financial Market Guarantee System, with the Board of Directors being able to authorize the Management Board to approve internal regulations. Due to this and other legislative changes, an amendment was made to the Statute of the Financial Market Guarantee System.

## Testing Banking Data

In March and April and in October and November 2018, 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 in both cases 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 41 a (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 45.6 billion as of 31 December 2018.

During 2018, the Financial Market Guarantee System carried on with previously commenced disbursements of compensation for deposits to clients of ERB bank, a.s. In 2018, the Financial Market Guarantee System disbursed to clients of this former bank total compensation of CZK 20.78 million.

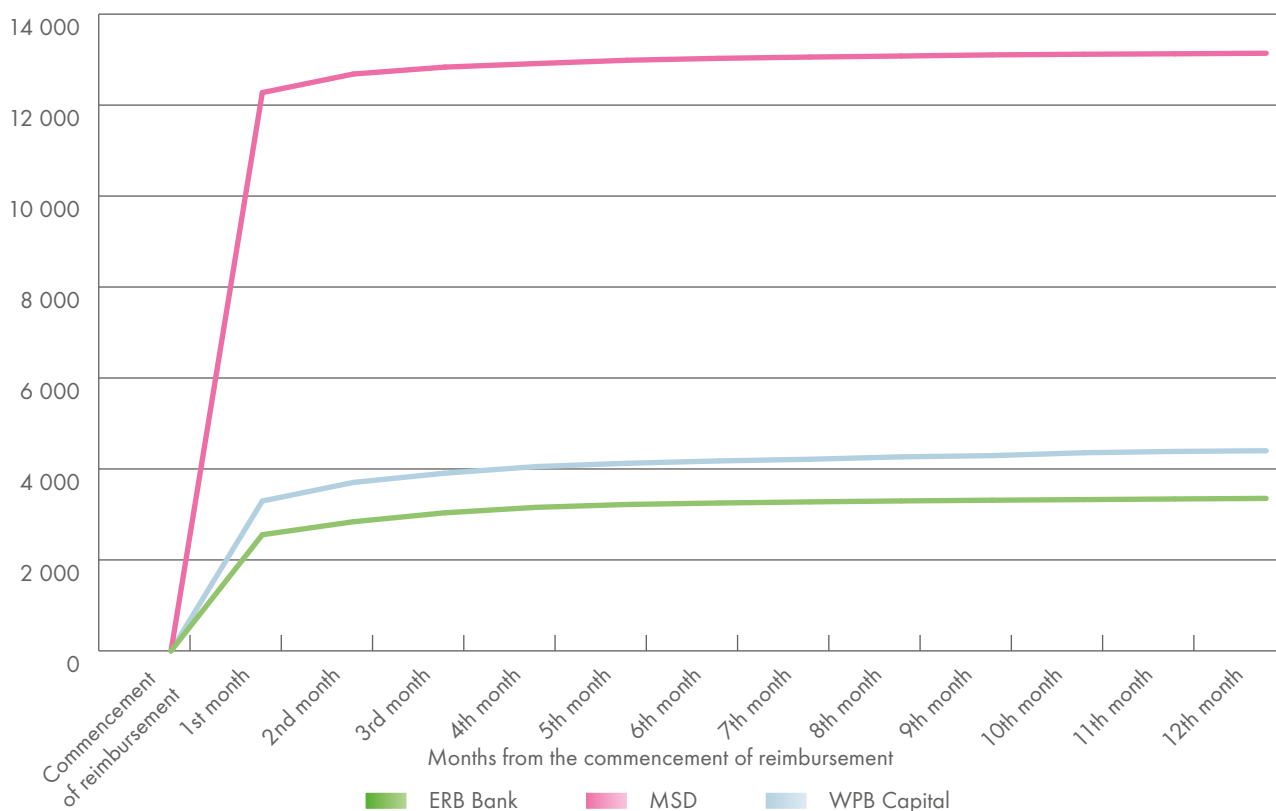
**Table 1** Compensation Disbursed from the Deposit Insurance Fund to 31 December 2018  
(in CZK mil.)

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	2,780.45	14/10/2014
ERB bank, a. s.	3,502.55	20/10/2016
<b>Total</b>	<b>45,650.96</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 withdrew the greatest volume 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.

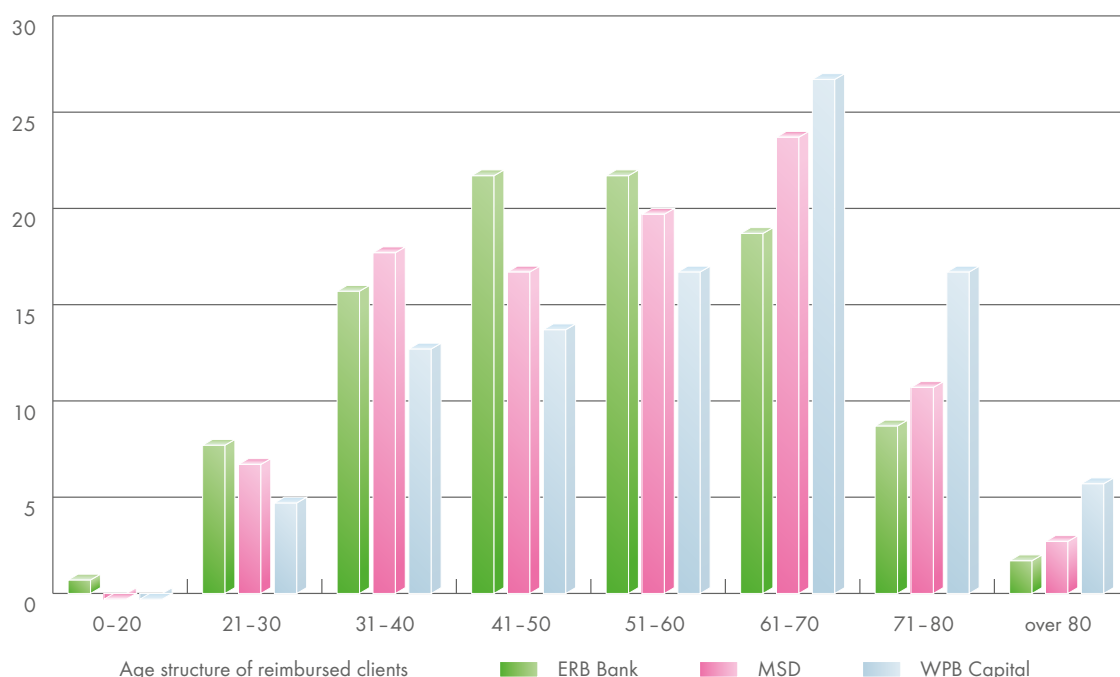
**Graph 1** Numbers of Paid Clients During the 1st Year of Compensation Disbursement (in Cumulative Terms)



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 July 1994	80%	100,000	
16/1998 Coll.	6 February 1998	80%	300,000	
165/1998 Coll.	1 September 1998	90%	400,000	
319/2001 Coll.	7 September 2001	90%		25,000
433/2008 Coll.	15 December 2008	100%		50,000
156/2010 Coll.	31 December 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. Of the total amount of disbursed compensation of deposits, which reached CZK 45,651 million as of 31 December 2018, CZK 43,635 million of the Financial Market Guarantee System claims have been recognised in bankruptcy proceedings and liquidation processes. Claims arising from additionally disbursed compensation for 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 the 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 the 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 2018 for the purposes of bankruptcy and insolvency proceedings and the liquidation process of the disbursed banks and cooperative credit unions. Of the total of CZK 39,216.18 million in registered claims, a preliminary distribution schedule has been drawn up for three banks and two cooperative credit unions. A final distribution schedule has been drawn up in the case of Universal banka, a.s. and in December 2018 a decision was issued on the cancellation of bankruptcy, which, however, did not take legal effect until February 2019.

As of 31 December 2018, the Financial Market Guarantee System registers CZK 27,621.53 million in receivables due from banks.

**Table 3 Overview of Registered Receivables in Bankruptcy and Liquidation Proceedings as of 31 December 2018**  
(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	0.03	0.20
Universal banka, a. s.	regular	1,862.64	788.72	1,073.92
Moravia banka, a. s.	regular	4,753.70	1,281.40	3,472.30
Union banka, a. s.	regular	12,416.54	4,966.62	7,449.92
UNIBON, spořitelní a úvěrní družstvo	regular	1,806.58	495.54	1,311.04
Úvěrní družstvo PDW, Praha	regular	20.97	0.00	20.97
Metropolitní spořitelní družstvo	regular	12,021.48	4,062.34	7,959.14
WPB Capital, spořitelní družstvo	regular	2,799.88	0.00	2,799.88
ERB bank, a. s.	regular	3,534.16	0.00	3,534.16
<b>Total</b>		<b>39,216.18</b>	<b>11,594.65</b>	<b>27,621.53</b>

As concerns bankruptcy proceedings completed by the end of 2018, 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 2018. A summary of these claims in completed bankruptcy and liquidation proceedings, including revenues received and recovery rates achieved, is shown in the table below.



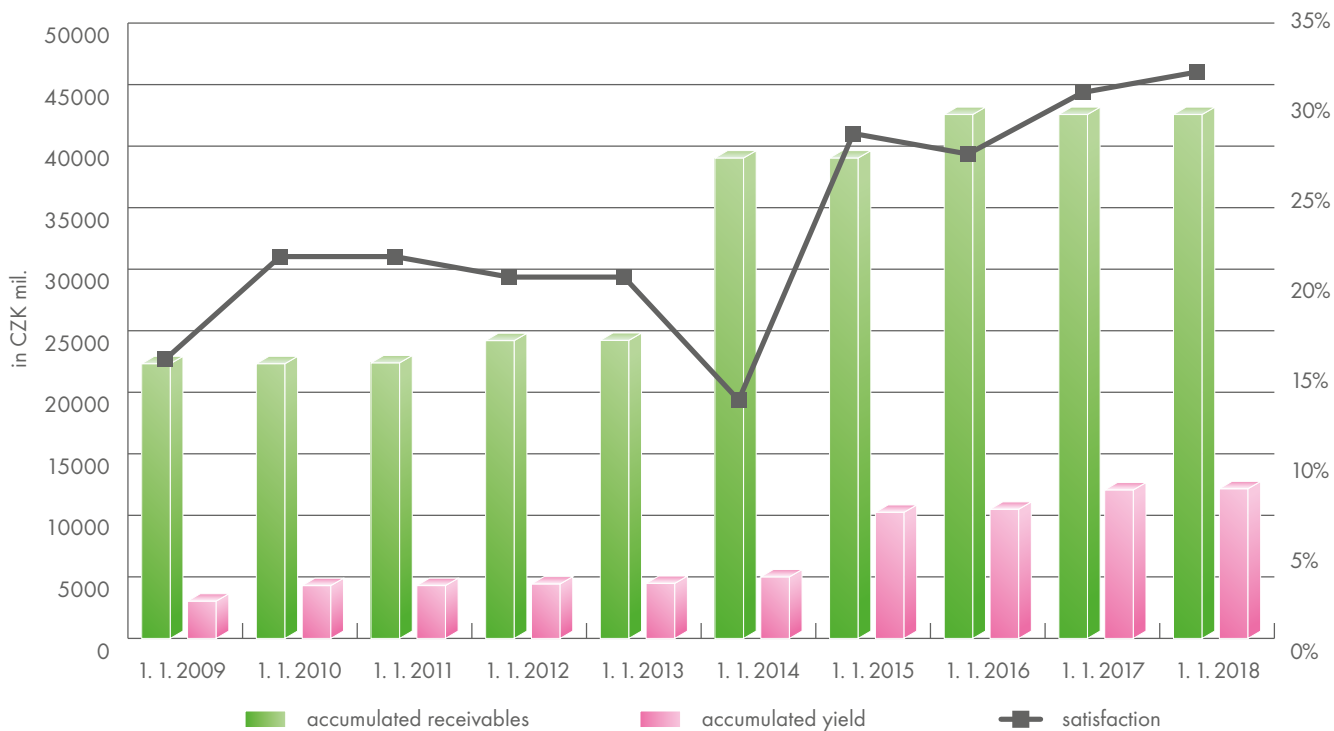
**Table 4 Summary of the Proceeds of Receivables against the Insured Institutions in Completed Bankruptcy and Liquidation Proceedings as of 31 December 2018**

(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 From 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 2018, the insured institutions paid contributions to the Deposit Insurance Fund totalling CZK 1,003 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 57,040.20 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

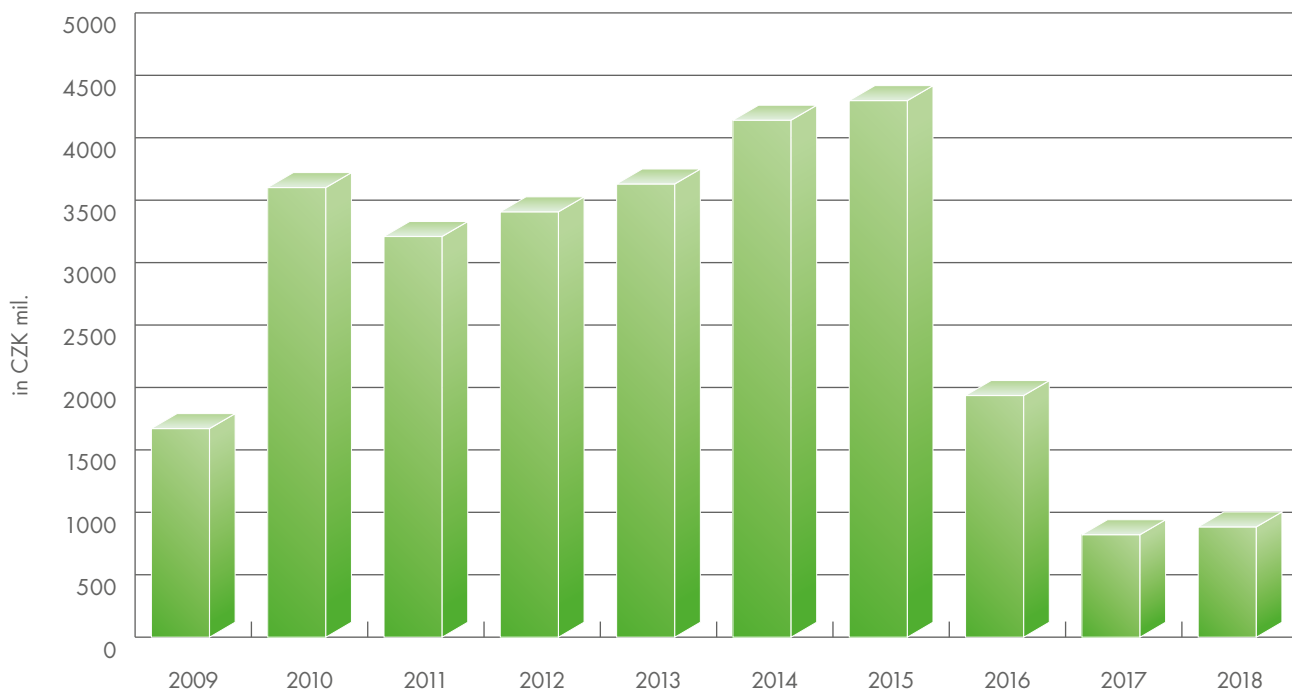
Contribution payment year	Amount in CZK mil.
2009	1,790.58
2010*	3,721.03
2011	3,329.39
2012	3,526.62
2013	3,749.82
2014	4,260.52
2015**	4,417.47
2016***	2,055.54
2017	940.65
2018	1,003.03
<b>Total</b>	<b>28,794.65</b>

\* 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, contributions to the Deposit Insurance Fund have been annual; 2016 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 the financial reserves of the Deposit Insurance Fund at the end of 2018 reached CZK 31,683.87 million. In 2018, the volume of the financial reserves of the Deposit Insurance Fund increased by CZK 1,399.69 million, with this increase being significantly driven mainly by income from the contributions received from financial institutions, which amounted to CZK 1,003.03 million, and the income from financial reserves, totalling CZK 353.70 million. Another significant source of revenue was income from bankruptcies, which amounted to CZK 95.28 million.

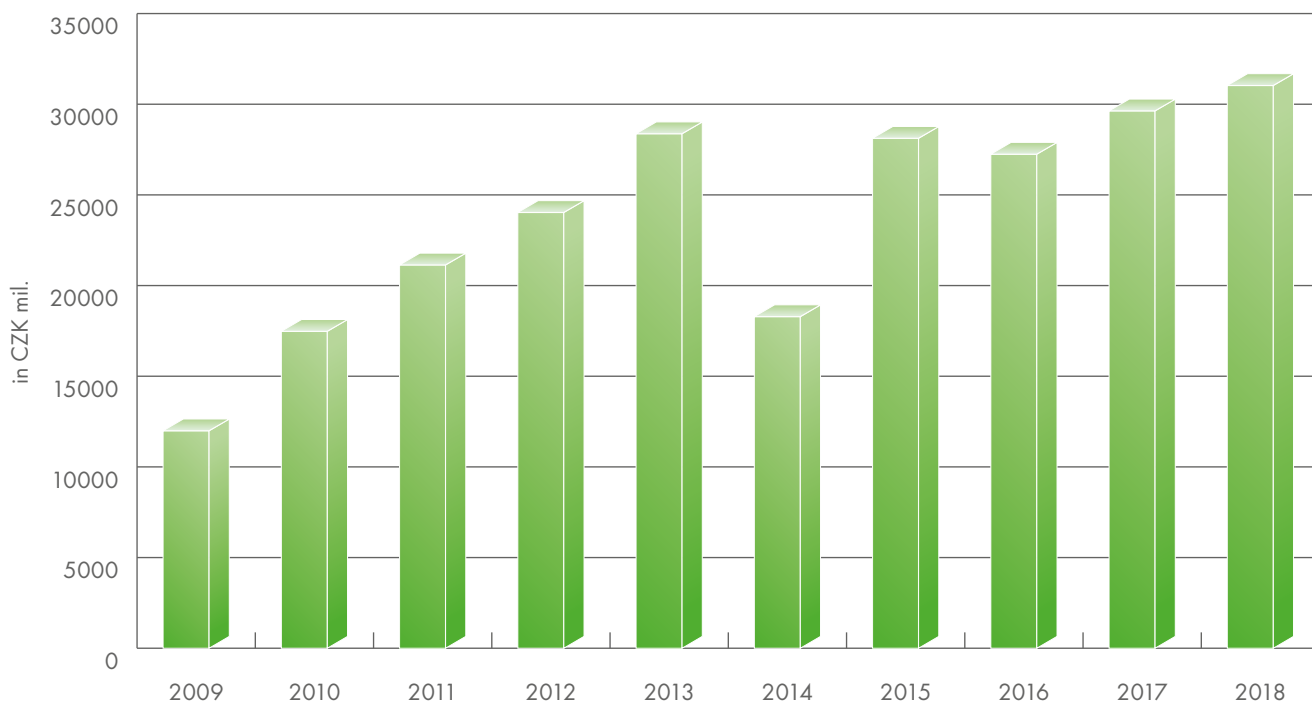
The financial reserves of the Deposit Insurance Fund have been divided into two portfolios: the short-term portfolio and the portfolio of securities held to maturity (the HTM portfolio) managed by the Financial Market Guarantee System.

Just as in the previous year, 2018 saw an increase in the volume of the short-term portfolio. This increase totalled

CZK 1,353.85 million. The transfer to the short-term portfolio involved especially the new financial resources (received contributions, income from bankruptcies and liquidations, late payment interest and other income). At the end of 2018, the volume of the short-term portfolio stood at CZK 28,472.80 million and thus accounted for 90% of the total reserves of the Deposit Insurance Fund. During the year, the financial reserves managed under the short-term portfolio were invested mainly in short-term repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or by the Czech National Bank.

In 2018, the volume of the HTM portfolio grew by CZK 45.84 million. This involved reinvestment of due bonds during the year. The total value of the HTM portfolio reached CZK 3,211.07 million by the end of 2018, accounting for 10% of the financial reserves of the Deposit Insurance Fund.

**Graph 6 Development in the Volume of Financial Reserves in the Deposit Insurance Fund 2009–2018**

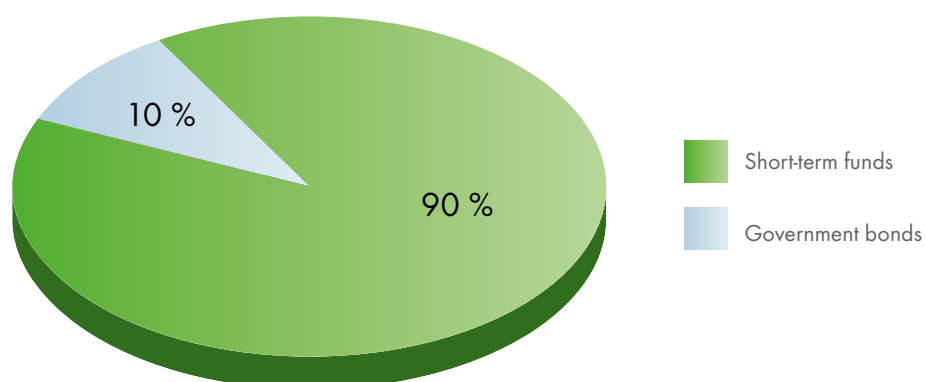


At the end of 2018, 90% of the financial reserves of the Deposit Insurance Fund was made up by short-term funds (deposits, buy/sell and repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic and by the Czech National Bank) and 10% was comprised of domestic government bonds issued by the Ministry of Finance of the Czech Republic.

**Table 6 Structure of Financial Reserves by Instrument, as of 31 December 2018**

Type of instrument	Value in CZK mil.
Current accounts, term deposits, buy/sell and repo operations, receivables *	28,472.80
Bonds:	3,211.07
of which: Treasury bills	0.00
Government bonds	3,211.07
<b>Total</b>	<b>31,683.87</b>

\* Receivables arising from financial transactions and unpaid coupons

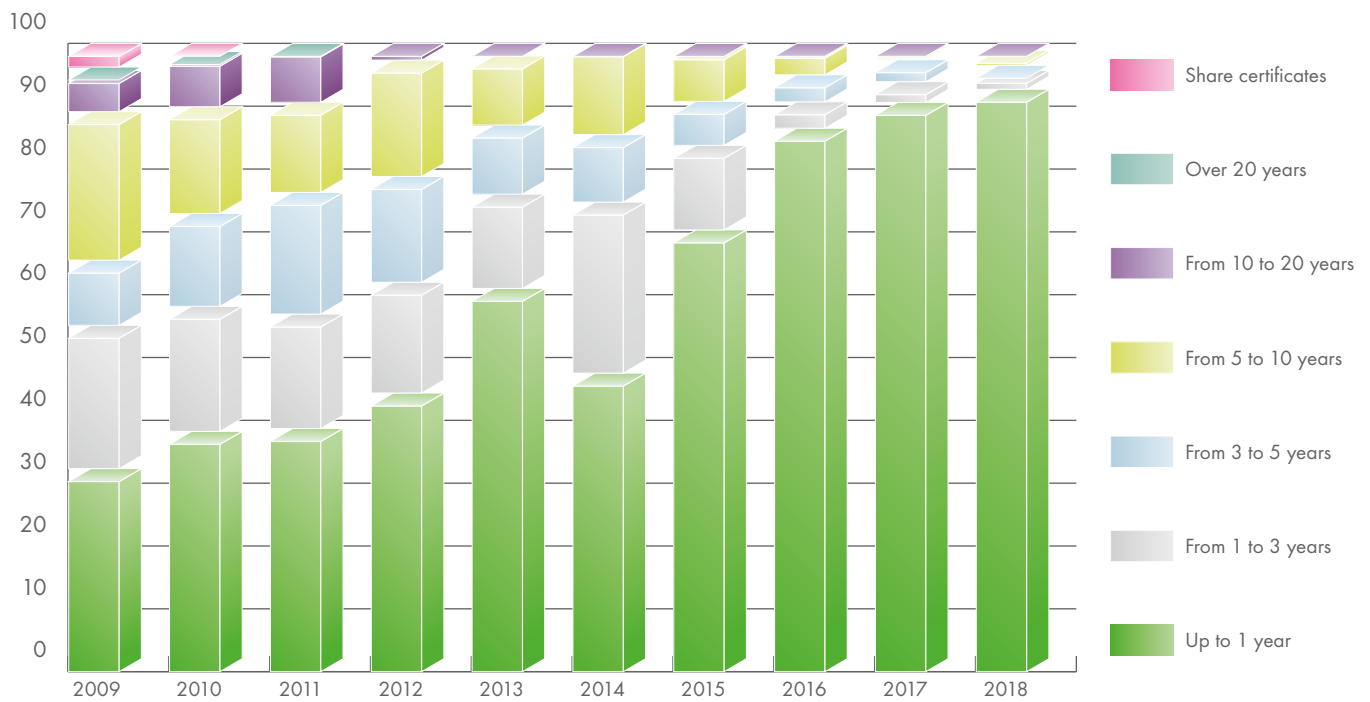
**Graph 7 Structure of Financial Reserves by Instrument, as of 31 December 2018**

Instruments maturing within 1 year made up the largest share (92.7%) 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 (3.0%), 3 to 5 years (0.8%), 5 to 10 years (2.4%) and 10 to 20 years (1.1%).

**Table 7 Structure of Financial Reserves by Maturity, as of 31 December 2018**

Instrument maturity	Value in CZK mil.
Up to 1 year	29,376.48
From 1 to 3 years	938.98
From 3 to 5 years	266.52
From 5 to 10 years	762.66
From 10 to 20 years	339.23
<b>Total</b>	<b>31,683.87</b>

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



The total gross appreciation of Deposit Insurance Fund financial provisions for 2018 was 1.14% p.a., i.e. approximately CZK 353.7 million.

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

**Table 8 Summary of Income and Expenditure for 1994–2018**  
(in CZK mil.)

<b>I</b>	<b>Income</b>	<b>81,032.84</b>
	Contributions from banks and cooperative credit unions	58,216.48
	Income from judicial composition and bankruptcy proceedings	12,759.78
	Refunds of disbursed compensation	130.40
	Returned advance payments of non-disbursed compensation	75.95
	Interest received and other revenues	6,850.23
	- investment revenue	6,744.23
	- other financial revenue	106.00
	Loans received	3,000.00
<b>II</b>	<b>Expenditure</b>	<b>49,335.15</b>
	Compensation for deposits disbursements	45,822.46
	Operating costs	388.82
	Operating costs of the Crisis Resolution Fund <sup>1)</sup>	2.71
	Interest paid	121.16
	Loan repayments	3,000.00
<b>III</b>	<b>Difference between income and expenditure</b>	<b>31,697.69</b>

Note: 1) With regard to the fact that there were not sufficient resources in the Operational Fund of the Crisis Resolution Fund, the operating costs of the Crisis Resolution Fund were paid from the resources of the Deposit Insurance Fund. The amount receivable by the Deposit Insurance Fund from the Crisis Resolution Fund (resulting from the payment of a proportionate share of the operating costs in 2018) is CZK 2,705,954.88. After replenishment of the Operational Fund of the Crisis Resolution Fund from profit, this receivable of the Deposit Insurance Fund will be refunded.

## VII ROLE AND ACTIVITIES IN CRISIS RESOLUTION IN 2018

### 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 for 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 for 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 if 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 mechanism for crisis resolution. The management of the resources of the Crisis Resolution Fund is governed especially by Section 209 et seq. 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 or, as the case may be, funds transferred from the Operational Fund;
- ▶ 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. Based on an amendment to the Act on Recovery Procedures, effective from 1 October 2018, an appeal against the Czech National Bank's resolution on defining the amount of the contribution does not have suspensive effect.

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 for 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. The amendment to the Act on Recovery Procedures, effective from 1 October 2018, also further specified the methods of use of



assets in the Crisis Resolution Fund and, in this context, a partial change was made to the Statute of the Crisis Resolution Fund.

If the Deposit Insurance Fund participated in dealing with a crisis within the meaning of Section 221 of the Act on Recovery Procedures, the amendment to the Act on Recovery Procedures and to Act No. 182/2006 Coll., the Insolvency Act, effective from 1 October 2018, stipulates that on the basis of this participation the Financial Market Guarantee System would then become a creditor of the obligated party and its claim would have a priority position in the insolvency hierarchy.

### 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 2018 was set by the Czech National Bank in the amount of CZK 3,111.48 million. 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

2018 was the third year of existence of the Crisis Resolution Fund, which was established under the Act on Recovery Procedures. The total volume of contributions received this year by the Crisis Resolution Fund from financial institutions was CZK 3,111.48 million and this amount thus increased the volume of financial reserves of the Crisis Resolution Fund to CZK 9,171.47 million as of 31 December 2018. During the year, these financial reserves were invested as part of the short-term portfolio in repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or the Czech National Bank.

The performance of this portfolio was greatly influenced by a substantial increase in the benchmark two-week repo rate. In 2018, the Czech National Bank increased this rate five times by 25 basis points and this had a positive impact on yields in the money market. The total gross appreciation of Crisis Resolution Fund financial provisions for 2018 was 0.94% p.a., i.e. approximately CZK 76.2 million.

### Main Cash Flows of the Crisis Resolution Fund

**Table 9 Summary of Income and Expenditure for 2016–2018**

(in CZK mil.)

<b>I</b>	<b>Income</b>	<b>9,177.98</b>
	Contributions from financial institutions	9,095.28
	Interest received and other revenues	82.70
	- investment revenue	82.70
	- other financial revenue	0.00
<b>II</b>	<b>Expenditure</b>	<b>6.51</b>
	Operating costs <sup>1)</sup>	6.51
<b>III</b>	<b>Difference between income and expenditure</b>	<b>9,171.47</b>

Note: 1) With regard to the fact that there were not sufficient resources in the Operational Fund of the Crisis Resolution Fund, the operating costs of the Crisis Resolution Fund were paid from the resources of the Deposit Insurance Fund. The amount receivable by the Deposit Insurance Fund from the Crisis Resolution Fund (resulting from the payment of a proportionate share of the operating costs in 2018) is CZK 2,705,954.88. After replenishment of the Operational Fund of the Crisis Resolution Fund from profit, this receivable of 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 2018 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 2018 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)

PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Evidence No 021.



### 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.

17 June 2019

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

Eva Loulová

Statutory Auditor, Evidence No. 1981

This report is addressed to the Board of Directors of Garanční systém finančního trhu.

#### 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:	31/12/2018
Date of preparation of financial statements:	17/6/2019

### Balance Sheet as of 31 December 2018 (CZK '000)

ASSETS	As of 1 January 2018	As of 31 December 2018
<b>A. Total fixed assets</b>	<b>2,962,011</b>	<b>2,308,785</b>
<b>I. Intangible fixed assets – software</b>	<b>2,766</b>	<b>2,256</b>
<b>II. Tangible fixed assets</b>	<b>1,844</b>	<b>1,366</b>
Works of art, objects and collections	217	259
Tangible assets and their sets	1,627	1,107
<b>III. Long-term investments – bonds, debentures and similar securities held to maturity</b>	<b>2,960,260</b>	<b>2,307,388</b>
<b>IV. Total accumulated depreciation and amortisation of fixed assets</b>	<b>-2,858</b>	<b>-2,225</b>
Accumulated amortisation of software	-1,456	-1,491
Accumulated depreciation of machinery and equipment	-1,402	-734
<b>B. Total current assets</b>	<b>61,046,302</b>	<b>66,184,436</b>
<b>II. Total receivables</b>	<b>27,731,728</b>	<b>27,636,194</b>
Operating advances paid	3	19
Other receivables	27,731,725	27,636,175
<b>III. Total current financial assets</b>	<b>33,314,291</b>	<b>38,548,001</b>
Cash in hand	28	28
Stamps and vouchers	54	17
Financial resources on accounts	33,109,245	37,644,275
Other securities	204,964	903,681
<b>IV. Total other assets</b>	<b>283</b>	<b>241</b>
Prepaid expenses	283	241
<b>Total assets</b>	<b>64,008,314</b>	<b>68,493,221</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

Financial Statements

Year ended 31 December 2018

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2018</b>	<b>As of 31 December 2018</b>
<b>A. Total equity</b>	<b>63,960,156</b>	<b>68,469,884</b>
<b>I. Equity – funds</b>	<b>60,427,326</b>	<b>64,542,313</b>
<b>II. Total profit/loss</b>	<b>3,532,831</b>	<b>3,927,571</b>
Profit/loss account	110,844	395,476
Retained earnings / Accumulated losses of previous years	3,421,987	3,532,095
<b>B. Total liabilities</b>	<b>48,157</b>	<b>23,337</b>
<b>III. Total current payables</b>	<b>48,157</b>	<b>23,337</b>
Payables to suppliers	909	915
Employees	1,652	1,745
Other payables to employees	5	5
Payables to social security and public health insurance institutions	667	722
Other direct tax liabilities	466	497
Other payables	44,176	18,977
Estimated payables	282	476
<b>Total equity and liabilities</b>	<b>64,008,314</b>	<b>68,493,221</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2018

Profit and Loss Account for the year ended 31 December 2018  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I. Consumed purchases and purchased services</b>	<b>12,795</b>	<b>0</b>	<b>12,795</b>
1. Consumption of material	253	0	253
3. Repairs and maintenance	21	0	21
4. Travel expenses	865	0	865
5. Representation expenses	220	0	220
6. Other services	11,436	0	11,436
<b>III. Personnel costs</b>	<b>16,966</b>	<b>0</b>	<b>16,966</b>
10. Wages and salaries	12,461	0	12,461
11. Statutory social security insurance	3,893	0	3,893
13. Statutory social expenses	384	0	384
14. Other social expenses	228	0	228
<b>IV. Taxes and fees</b>	<b>314</b>	<b>0</b>	<b>314</b>
<b>V. Other expenses</b>	<b>3,851</b>	<b>0</b>	<b>3,851</b>
16. Contractual penalties and late payment interest, other fines and penalties	477	0	477
19. Foreign exchange losses	50	0	50
22. Sundry other expenses	3,324	0	3,324
<b>VI. Depreciation and assets sold, creation and use of provisions and adjustments</b>	<b>769</b>	<b>0</b>	<b>769</b>
23. Amortisation of intangible and depreciation of tangible fixed assets	769	0	769
<b>Total expenses</b>	<b>34,695</b>	<b>0</b>	<b>34,695</b>

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2018

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV. Other revenues</b>	<b>430,171</b>	<b>0</b>	<b>430,171</b>
5. Contractual penalties and late payment interest, other fines and penalties	9	0	9
7. Interest revenue	<b>429,868</b>	<b>0</b>	<b>429,868</b>
10. Sundry other revenues	294	0	294
<b>Total revenues</b>	<b>430,171</b>	<b>0</b>	<b>430,171</b>
<b>C. Profit/loss before tax</b>	<b>395,476</b>	<b>0</b>	<b>395,476</b>
<b>D. Profit/loss after tax</b>	<b>395,476</b>	<b>0</b>	<b>395,476</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 2018

## 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 2018 was as follows:

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

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 2018 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 2018

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

#### 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 2018

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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 for 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 2018

## 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 (the "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

### Financial Statements

Year ended 31 December 2018

The 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. The 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.

### 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 FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2018

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.

### 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.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2018

## 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.

### 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.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

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### Financial Statements

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Year ended 31 December 2018

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**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 establishes 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.

### 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.



## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2018

#### 2.11 Tangible Fixed Assets

Purchased tangible fixed 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 tangible fixed 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 tangible fixed 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 intangible fixed 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 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 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 management.

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, which the Financial Market Guarantee System intends and is able to hold until their maturity.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2018

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

The contributions to the Deposit Insurance Fund are posted directly to the Equity – Funds account 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 contributions 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 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.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

Year ended 31 December 2018

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

In accordance with the Decree of the Ministry of Finance of the Czech Republic and an internal accounting regulation governing accepted contributions, compensation disbursements and related cases, after 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 a reduction of the aforementioned Equity – Funds account 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 for the current year) is transferred within the Financial Market Guarantee System's equity to Retained earnings / Accumulated losses of previous years or to Equity – Funds. The subsequent transfer of retained earnings of previous years from Retained earnings / Accumulated losses of previous years to Equity – 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 2018

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

(CZK '000)	As of 31 December 2018	As of 1 January 2018
Receivables from compensation disbursed	27,618,485	27,713,774
Receivables from duplicate payments	14,412	14,672
Other receivables	234	235
Receivables from unpaid contributions	3,044	3,044
<b>Other receivables – total</b>	<b>27,636,175</b>	<b>27,731,725</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 27,618,485,000 as of 31 December 2018 (as of 1 January 2018: CZK 27,713,774,000, of which CZK 12,651,000 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 2.15). If there were an option to create an adjustment, the Financial Market Guarantee System would create a 90% adjustment for the Receivables from compensation for deposits disbursed.

**3.2** Debt Securities Held to Maturity**Debt securities held to maturity at amortised costs:**

(CZK '000)	As of 31 December 2018	As of 1 January 2018
Debt securities held to maturity	3,211,069	3,165,224

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2018 (the same as of 1 January 2018). The value of the bonds in market terms reached CZK 3,364,195,000 as of 31 December 2018 (as of 1 January 2018 the value was CZK 3,473,570,000).

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## Financial Statements

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## 3.3 Statement of Changes on the Funds Account

The Financial Market Guarantee System has no registered capital. Its equity consists of the Equity – Funds account and the financial result (i.e. profit/loss).

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

(CZK '000)	2018	2017
<b>Deposit Insurance Fund:</b>		
Opening balance – 1 January	54,443,524	54,263,099
Contributions received (see note 3.5)	1,003,031	940,652
New receivables due from banks in insolvency and liquidation	-6	-685
Written-off receivables and payables from compensation disbursements	0	-782,324
Compensation disbursement	-249	685
Additional payments and refunds from settlement, other receivables due from banks	0	22,097
<b>Closing balance – 31 December</b>	<b>55,446,300</b>	<b>54,443,524</b>

During 2018, the Financial Market Guarantee System continued with the disbursement of compensation for deposits to clients of ERB bank, a. s., which was started in 2016.

(CZK '000)	2018	2017
<b>Crisis Resolution Fund:</b>		
Opening balance – 1 January	5,983,802	2,958,882
Contribution Fund		
Contributions received (see note 3.5)	3,111,476	3,024,920
Operational Fund	736	0
<b>Closing balance – 31 December</b>	<b>9,096,014</b>	<b>5,983,802</b>

## 3.4 Liabilities

Payables from compensation disbursements as of 31 December 2018 were CZK 18,962,000 (1 January 2018: CZK 44,161,000). 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 2018 were CZK 722,000 (1 January 2018: CZK 667,000), of which CZK 390,000 (1 January 2018: CZK 354,000) is social security payables and CZK 332,000 (1 January 2018: CZK 313,000) is health insurance payables.

Tax liabilities amounted to CZK 497,000 (1 January 2018: CZK 466,000).

None of these payables were overdue.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2018

## 3.5 Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.14.).

(CZK '000)	2018	2017
Contributions received from banks	4,114,507	3,965,572

By 31 May 2018, contributions to the Crisis Resolution Fund totalled CZK 3,111,476,000 and by 30 June 2018, contributions to the Deposit Insurance Fund totalled CZK 1,003,031,000. 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.

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

(CZK '000)	2018	2017
<b>Revenues:</b>		
Revenues from securities sold	0	757,364
Contractual penalties, late payment interest, other fines and penalties	9	31
Interest revenue	429,868	143,469
Foreign exchange gains	0	21
Other revenues (see note 3.7)	294	2,842
<b>Total</b>	<b>430,171</b>	<b>903,727</b>
<b>Expenses:</b>		
Securities sold	0	-758,907
Amortisation of intangible and depreciation of tangible fixed assets	-769	-666
Purchases consumed	-494	-493
Services	-12,301	-14,229
Personnel costs	-16,966	-16,009
Taxes and fees	-314	-32
Contractual penalties and late payment interest, other fines and penalties	-477	0
Foreign exchange losses	-50	-12
Other expenses (see note 3.7)	-3,324	-2,535
<b>Total</b>	<b>-34,695</b>	<b>-792,883</b>

The 2018 profit of CZK 395,476,000, which is made up by the profit of the Deposit Insurance Fund totalling CZK 322,699,000 and by the profit of the Crisis Resolution Fund amounting to CZK 72,777,000. The profit of the Deposit Insurance Fund is proposed for transfer to retained earnings of previous years and the profit of the Crisis Resolution Fund is proposed for transfer to the Operational Fund.

## THE FINANCIAL MARKET GUARANTEE SYSTEM

## Financial Statements

Year ended 31 December 2018

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2018 amounted to CZK 12,461,000 (2017: CZK 11,777,000).

## 3.7 Other Revenues and Other Expenses

(CZK '000)	2018	2017
<b>Revenues:</b>		
Sundry other revenues - change in the fair value of securities held for trading	0	0
Other	294	2,842
<b>Total</b>	<b>294</b>	<b>2,842</b>
<b>Expenses:</b>		
Sundry other expenses - change in the fair value of securities held for trading	0	0
Other	-3,324	-2,535
<b>Total</b>	<b>-3,324</b>	<b>-2,535</b>

In 2018, the auditor PricewaterhouseCoopers Audit, s.r.o., was reimbursed for the statutory audit of the financial statements for 2017. The auditor's fee was CZK 472,000 (2017 Ernst & Young, Audit, s.r.o: CZK 363,000).

In 2018, 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 (2017: 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.

## 3.8 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.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2018 totalled CZK 31,567,000 (2017: CZK 32,371,000), of which CZK 28,865,000 (2017: CZK 29,039,000) was expenses related to the management of the Deposit Insurance Fund and CZK 2,702,000 (2017: CZK 3,332,000) was expenses related to the management of the Crisis Resolution Fund.

The expenses related to the management of the Deposit Insurance Fund of CZK 28,865,000 (2017: CZK 29,039,000) were covered from the resources of the Deposit Insurance Fund.

With regard to the lack of resources in the Operational Fund of the Crisis Resolution Fund in 2016, 2017 and 2018, the costs related to the management of the Crisis Resolution Fund, which are comprised of operating expenses, expenses related to securities

## THE FINANCIAL MARKET GUARANTEE SYSTEM

### Financial Statements

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management, expenses for asset acquisitions and the share of the Crisis Resolution Fund in asset depreciation, in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of the Financial Market Guarantee System, were paid from the resources of the Deposit Insurance Fund, which were provided as an advance payment to the Operational Fund of the Crisis Resolution Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund from the Crisis Resolution Fund. After approval of the 2017 financial statements, the 2017 profit of the Crisis Resolution Fund was transferred to the Operational Fund of the Crisis Resolution Fund and these resources were used to repay to the Deposit Insurance Fund the advance payments provided to the Operational Fund of the Crisis Resolution Fund to cover the expenses related to the management of the Crisis Resolution Fund in 2016 and 2017. The remaining resources in the Operational Fund of the Crisis Resolution Fund were used to cover a part of the expenses related to the management of the Crisis Resolution Fund in 2018 and the remaining portion of these expenses were covered by the advance payment provided for this purpose to the Operational Fund of the Crisis Resolution Fund from the Deposit Insurance Fund. After approval of the 2018 financial statements, the 2018 profit of the Crisis Resolution Fund will be transferred to the Operational Fund of the Crisis Resolution Fund and these resources will be used to repay the advance payment provided to the Operational Fund of the Crisis Resolution Fund from the Deposit Insurance Fund to cover the expenses related to the management of the Crisis Resolution Fund in 2018. The remaining balance of assets in the Operational Fund of the Crisis Resolution Fund can be used for expenses related to the management of the Crisis Resolution Fund in subsequent years.

### 3.9 Litigation

As of 31 December 2018, the Financial Market Guarantee System was not involved as a defendant in any litigation where the subject matter of the dispute was for a principal amount in excess of CZK 5 million.

### 3.10 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 2018.

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

Prague, 17 June 2019



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager



# IX THE 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 the fund 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 2018 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 2018 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 of the Fund*

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.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Evidence No 021.



### 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 of Garanční systém finančního trhu.
- 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.

17 June 2019

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

*Eva Loulová*

Eva Loulová  
Statutory Auditor, Evidence No. 1981

This report is addressed to the Board of Directors of Garanční systém finančního trhu.

#### 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 Deposit Insurance Fund

Date of financial statements:	31/12/2018
Date of preparation of financial statements:	17/6/2019

Balance Sheet as of 31 December 2018  
(CZK '000)

ASSETS	As of 1 January 2018	As of 31 December 2018
<b>A. Total fixed assets</b>	<b>2,961,990</b>	<b>2,308,760</b>
<b>I. Intangible fixed assets – software</b>	<b>2,766</b>	<b>2,257</b>
<b>II. Tangible fixed assets</b>	<b>1,822</b>	<b>1,340</b>
Works of art, objects and collections	195	233
Tangible assets and their sets	1,627	1,107
<b>III. Long-term investments – bonds, debentures and similar securities held to maturity</b>	<b>2,960,260</b>	<b>2,307,388</b>
<b>IV. Total accumulated depreciation and amortisation of fixed assets</b>	<b>-2,858</b>	<b>-2,225</b>
Accumulated amortisation of software	-1,457	-1,491
Accumulated depreciation of machinery and equipment	-1,402	-734
<b>B. Total current assets</b>	<b>55,061,786</b>	<b>57,015,670</b>
<b>II. Total receivables</b>	<b>27,737,503</b>	<b>27,638,900</b>
Operating advances paid	3	18
Other receivables	27,737,500	27,638,881
<b>III. Total current financial assets</b>	<b>27,324,000</b>	<b>29,376,529</b>
Cash in hand	29	28
Stamps and vouchers	54	17
Financial resources on accounts	27,118,953	28,472,803
Other securities	204,964	903,681
<b>IV. Total other assets</b>	<b>283</b>	<b>242</b>
Prepaid expenses	283	242
<b>Total assets</b>	<b>58,023,776</b>	<b>59,324,430</b>

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2018

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2018</b>	<b>As of 31 December 2018</b>
<b>A. Total equity</b>	<b>57,975,619</b>	<b>59,301,093</b>
<b>I. Equity – funds</b>	<b>54,443,524</b>	<b>55,446,300</b>
<b>II. Total profit/loss</b>	<b>3,532,095</b>	<b>3,854,793</b>
Profit/loss account	108,163	322,699
Retained earnings	3,423,932	3,532,094
<b>B. Total liabilities</b>	<b>48,157</b>	<b>23,337</b>
<b>III. Total current payables</b>	<b>48,157</b>	<b>23,337</b>
Payables to suppliers	909	915
Employees	1,652	1,745
Other payables to employees	5	5
Payables to social security and public health insurance institutions	667	722
Other direct tax liabilities	466	497
Other payables	44,176	18,977
Estimated payables	282	476
<b>Total equity and liabilities</b>	<b>58,023,776</b>	<b>59,324,430</b>

## The Deposit Insurance Fund

## Financial Statements

Year ended 31 December 2018

Profit and Loss Account for the year ended 31 December 2018  
(CZK '000)

	Main	Activity Economic	Total
<b>A. Expenses</b>			
<b>I. Consumed purchases and purchased services</b>	<b>11,836</b>	<b>0</b>	<b>11,836</b>
1. Consumption of material	228	0	228
3. Repairs and maintenance	19	0	19
4. Travel expenses	780	0	780
5. Representation expenses	199	0	199
6. Other services	10,610	0	10,610
<b>III. Personnel costs</b>	<b>15,296</b>	<b>0</b>	<b>15,296</b>
10. Wages and salaries	11,234	0	11,234
11. Statutory social security insurance	3,509	0	3,509
13. Statutory social expenses	347	0	347
14. Other social expenses	206	0	206
<b>IV. Taxes and fees</b>	<b>314</b>	<b>0</b>	<b>314</b>
<b>V. Other expenses</b>	<b>3,027</b>	<b>0</b>	<b>3,027</b>
16. Contractual penalties and late payment interest, other fines and penalties	477		477
19. Foreign exchange losses	45	0	45
22. Sundry other expenses	2,505	0	2,505
<b>VI. Depreciation, assets sold, creation and use of provisions and adjustments</b>	<b>769</b>	<b>0</b>	<b>769</b>
23. Amortisation of intangible and depreciation of tangible fixed assets	769	0	769
<b>Total expenses</b>	<b>31,242</b>	<b>0</b>	<b>31,242</b>

## The Deposit Insurance Fund

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(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV Other revenues</b>	<b>353,941</b>	<b>0</b>	<b>353,941</b>
5. Contractual penalties, late payment interest, other fines and penalties	9	0	9
7. Interest revenue	353,653	0	353,653
10. Sundry other revenues	279	0	279
<b>Total revenues</b>	<b>353,941</b>	<b>0</b>	<b>353,941</b>
<b>C. Profit/loss before tax</b>	<b>322,699</b>	<b>0</b>	<b>322,699</b>
<b>D. Profit/loss after tax</b>	<b>322,699</b>	<b>0</b>	<b>322,699</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

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## 1 **D** General Information

The Deposit Insurance Fund is an accounting unit managed by the Financial Market Guarantee System, 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 **D** 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 **D** 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

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### Financial Statements

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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 Financial Market Guarantee System Statute).

### 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 for 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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Year ended 31 December 2018

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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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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. The 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 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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Year ended 31 December 2018

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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.

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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. 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.

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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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 tangible fixed 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 tangible fixed 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 intangible fixed 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.

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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 management.

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.

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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

The contributions to the Deposit Insurance Fund are posted directly to the Equity – Funds account 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, after the commencement of disbursement, payables to clients of the banks for which the compensation is being disbursed are posted against a reduction of the aforementioned Equity – Funds account 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 for the current year) is transferred within the Deposit Insurance Fund's equity to Retained earnings / Accumulated losses of previous years or to Equity – Funds. The subsequent transfer of retained earnings of previous years from Retained earnings / Accumulated losses of previous years to Equity – Funds is possible again if the Board of Directors of the Financial Market Guarantee System so decides.



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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 2018	As of 1 January 2018
Receivables from compensation disbursed	27,618,485	27,713,774
Receivables from duplicate payments	14,412	14,672
Receivables from coupons	0	0
Other receivables	2,940	6,010
Receivables from unpaid contributions	3,044	3,044
<b>Other receivables – total</b>	<b>27,638,881</b>	<b>27,737,500</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 27,618,485,000 as of 31 December 2018 (as of 1 January 2018: CZK 27,713,774,000, of which CZK 12,651,000 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 2.15). If there were an option to create an adjustment, the Financial Market Guarantee System would create a 90% adjustment for the Receivables from compensation for deposits disbursed.

Other receivables include the Deposit Insurance Fund's receivable from the Crisis Resolution Fund concerning the expenses related to the management of the Crisis Resolution Fund in 2018, totalling CZK 2,706,000 (2017: CZK 5,775,000).

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

(CZK '000)	As of 31 December 2018	As of 1 January 2018
Debt Securities Held to Maturity	3,211,069	3,165,224

Czech government bonds represented 100% of the value of held-to-maturity securities as of 31 December 2018 (the same as of 1 January 2018). The value of the bonds in market terms reached CZK 3,364,195,000 as of 31 December 2018 (as of 1 January 2018 the value was CZK 3,473,570,000).

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

The Deposit Insurance Fund has no registered capital. Its equity consists of the Equity – Funds account and the financial result (i.e. profit/loss).

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

(CZK '000)	2018	2017
Opening balance – 1 January	54,443,524	54,263,099
Contributions received (see note 3.6.)	1,003,031	940,652
New receivables due from banks in insolvency and liquidation	-6	-685
Written-off receivables and payables from compensation disbursements	0	-782,324
Compensation disbursement	-249	685
Additional payments and refunds from settlement, other receivables due from banks	0	22,097
<b>Closing balance – 31 December</b>	<b>55,446,300</b>	<b>54,443,524</b>

During 2018, the Financial Market Guarantee System continued with the disbursement of compensation for deposits to clients of ERB bank, a. s., which was started in 2016.

**3.4** Liabilities

Payables from compensation disbursements as of 31 December 2018 were CZK 18,962,000 (1 January 2018: CZK 44,161,000). 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 2018 were CZK 722,000 (1 January 2018: CZK 667,000), of which CZK 390,000 (1 January 2018: CZK 354,000) is social security payables and CZK 332,000 (1 January 2018: CZK 313,000) is health insurance payables.

Tax liabilities amounted to CZK 497,000 (1 January 2018: CZK 466,000).

None of these payables were overdue.

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## 3.5 Contributions from Banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.14.).

(CZK '000)	2018	2017
Contributions received from banks	1,003,031	940,652

By 30 June 2018, contributions to the Deposit Insurance Fund for 2018 totalled CZK 1,003,031,000. 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.

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

(CZK '000)	2018	2017
<b>Revenues:</b>		
Revenues from securities sold	0	757,364
Contractual penalties, late payment interest, other fines and penalties	9	31
Interest revenue	353,653	136,979
Foreign exchange gains	0	18
Other revenues (see note 3.7)	279	2,842
<b>Total</b>	<b>353,941</b>	<b>897,234</b>
<b>Expenses:</b>		
Securities sold	0	-758,907
Amortisation of intangible and depreciation of tangible fixed assets	-769	-666
Purchases consumed	-446	-432
Services	-11,390	-13,054
Personnel costs	-15,296	14,022
Taxes and fees	-314	-31
Contractual penalties and late payment interest, other fines and penalties	-477	
Foreign exchange losses	-45	-11
Other expenses (see note 3.7)	-2,505	-1,948
<b>Total</b>	<b>-31,242</b>	<b>-789,071</b>

The 2018 profit of CZK 322,699,000 (2017: CZK 108,163,000) is proposed for transfer to retained earnings of previous 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 2018 amounted to CZK 12,460,000 (2017: CZK 11,777,000). The share of wage costs covered by the Crisis Resolution Fund amounts to CZK 1,226,000 (2017: CZK 1,462,000).

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## 3.7 Other Revenues and Other Expenses

(CZK '000)	2018	2017
<b>Revenues:</b>		
Sundry other revenues - change in the fair value of securities held for trading	0	0
Other	279	2,842
<b>Total</b>	<b>279</b>	<b>2,842</b>
<b>Expenses:</b>		
Sundry other expenses - change in the fair value of securities held for trading	0	0
Other	-2,505	-1,948
<b>Total</b>	<b>-2,505</b>	<b>-1,948</b>

In 2018, the auditor PricewaterhouseCoopers Audit, s.r.o., was reimbursed for the statutory audit of the financial statements for 2017. The auditor's fee was CZK 472,000 (2017 Ernst & Young, Audit, s. r. o.: CZK 363,000). The Deposit Insurance Fund's share of these costs is CZK 426,000 (2017: CZK 318,000).

In 2018, 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 (2017: 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. The Deposit Insurance Fund's share of these costs is CZK 84,000 (2017: CZK 82,000).

## 3.8 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 Crisis Resolution Fund.

The total costs incurred by the Financial Market Guarantee System in connection with the management of the two Funds in 2018 totalled CZK 31,567,000 (2017: CZK 32,371,000), of which CZK 28,865,000 (2017: CZK 29,039,000) was expenses related to the management of the Deposit Insurance Fund and CZK 2,702,000 (2017: CZK 3,332,000) was expenses related to the management of the Crisis Resolution Fund.

The expenses related to the management of the Deposit Insurance Fund of CZK 28,865,000 (2017: CZK 29,039,000) were reimbursed to the Financial Market Guarantee System from resources of the Deposit Insurance Fund.

With regard to the lack of resources in the Operational Fund of the Crisis Resolution Fund in 2016, 2017 and 2018, the costs related to the management of the Crisis Resolution Fund, which are comprised of operating expenses, expenses related to securities management, expenses for asset acquisitions and the share of the Crisis Resolution Fund in asset depreciation, in accordance with

## The Deposit Insurance Fund

### Financial Statements

Year ended 31 December 2018

Section 207 (2) of the AFCPR and Article 6.4 of the Statute of the Financial Market Guarantee System, were paid from the resources of the Deposit Insurance Fund, which were provided as an advance payment to the Operational Fund of the Crisis Resolution Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund from the Crisis Resolution Fund. After approval of the 2017 financial statements, the 2017 profit of the Crisis Resolution Fund was transferred to the Operational Fund of the Crisis Resolution Fund and these resources were used to repay to the Deposit Insurance Fund the advance payments provided to the Operational Fund of the Crisis Resolution Fund to cover the expenses related to the management of the Crisis Resolution Fund in 2016 and 2017. The remaining resources in the Operational Fund of the Crisis Resolution Fund were used to cover a part of the expenses related to the management of the Crisis Resolution Fund in 2018 and the remaining portion of these expenses were covered by the advance payment provided for this purpose to the Operational Fund of the Crisis Resolution Fund from the Deposit Insurance Fund. After approval of the 2018 financial statements, the 2018 profit of the Crisis Resolution Fund will be transferred to the Operational Fund of the Crisis Resolution Fund and these resources will be used to repay the advance payment provided to the Operational Fund of the Crisis Resolution Fund from the Deposit Insurance Fund to cover the expenses related to the management of the Crisis Resolution Fund in 2018. The remaining balance of assets in the Operational Fund of the Crisis Resolution Fund can be used for expenses related to the management of the Crisis Resolution Fund in subsequent years.

### 3.9 Litigation

As of 31 December 2018, in connection with the management of the Deposit Insurance Fund, the Financial Market Guarantee System was not involved as a defendant in any litigation where the subject matter of the dispute was for a principal amount in excess of CZK 5 million.

### 3.10 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 2018.

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

Prague, 17 June 2019



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager

# X THE 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 the fund 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 2018 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 2018 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 of the Fund*

The Statutory Body of Garanční systém finančního trhu is responsible for the preparation and fair presentation of the financial statements of the Fund 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.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Evidence No 021.





### 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 of Garanční systém finančního trhu.
- 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.

17 June 2019

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

*Eva Loulova*  
Eva Loulova

Statutory Auditor, Evidence No. 1981

This report is addressed to the Board of Directors of Garanční systém finančního trhu.

#### 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 Crisis Resolution Fund

Date of financial statements:	31/12/2018
Date of preparation of financial statements:	17/6/2019

## Balance Sheet as of 31 December 2018 (CZK '000)

ASSETS	As of 1 January 2018	As of 31 December 2018
<b>A. Total fixed assets</b>	<b>21</b>	<b>25</b>
<b>II. Tangible fixed assets</b>	<b>21</b>	<b>25</b>
Works of art, objects and collections	21	25
<b>B. Total current assets</b>	<b>5,990,292</b>	<b>9,171,472</b>
<b>III. Total current financial assets</b>	<b>5,990,292</b>	<b>9,171,472</b>
Financial resources on accounts	5,990,292	9,171,472
<b>Total assets</b>	<b>5,990,313</b>	<b>9,171,497</b>

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2018

(CZK '000)

<b>LIABILITIES</b>	<b>As of 1 January 2018</b>	<b>As of 31 December 2018</b>
<b>A. Total equity</b>	<b>5,984,538</b>	<b>9,168,791</b>
<b>I. Equity – funds</b>	<b>5,983,802</b>	<b>9,096,014</b>
Contribution Fund	5,983,802	9,095,278
Operational Fund	0	736
<b>II. Total profit/loss</b>	<b>736</b>	<b>72,777</b>
Profit/loss account	2,681	72,777
Retained earnings / Accumulated losses of previous years	-1,945	0
<b>B. Total liabilities</b>	<b>5,775</b>	<b>2,706</b>
<b>III. Total current payables</b>	<b>5,775</b>	<b>2,706</b>
Other payables	5,775	2,706
<b>Total equity and liabilities</b>	<b>5,990,313</b>	<b>9,171,497</b>

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2018

Profit and Loss Account for the year ended 31 December 2018  
(CZK '000)

	Activity		
	Main	Economic	Total
<b>A. Expenses</b>			
<b>I. Consumed purchases and purchased services</b>	<b>959</b>	<b>0</b>	<b>959</b>
1. Consumption of material	25	0	25
3. Repairs and maintenance	2	0	2
4. Travel expenses	85	0	85
5. Representation expenses	21	0	21
6. Other services	826	0	826
<b>III. Personnel costs</b>	<b>1,670</b>	<b>0</b>	<b>1,670</b>
10. Wages and salaries	1,227	0	1,226
11. Statutory social security insurance	383	0	383
13. Statutory social expenses	38	0	38
14. Other social expenses	22	0	22
<b>V. Other expenses</b>	<b>824</b>	<b>0</b>	<b>824</b>
19. Foreign exchange losses	5	0	5
22. Sundry other expenses	819	0	819
<b>Total expenses</b>	<b>3,453</b>	<b>0</b>	<b>3,453</b>

## The Crisis Resolution Fund

## Financial Statements

Year ended 31 December 2018

(CZK '000)

	Activity		
	Main	Economic	Total
<b>B. Revenues</b>			
<b>IV. Other revenues</b>	<b>76,230</b>	<b>0</b>	<b>76,230</b>
7. Interest revenue	76,215	0	76,215
10. Other revenues	15	0	15
<b>Total revenues</b>	<b>76,230</b>	<b>0</b>	<b>76,230</b>
<b>C. Profit/loss before tax</b>	<b>72,777</b>	<b>0</b>	<b>72,777</b>
<b>D. Profit/loss after tax</b>	<b>72,777</b>	<b>0</b>	<b>72,777</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).

## The Crisis Resolution Fund

### Financial Statements

Year ended 31 December 2018

## 1 **D** General Information

The Crisis Resolution Fund is an accounting unit managed by the Financial Market Guarantee System, 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.

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 **D** 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 **D** 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 Crisis Resolution Fund

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### Financial Statements

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Year ended 31 December 2018

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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 Financial Market Guarantee System Statute).

### 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.

## The Crisis Resolution Fund

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### Financial Statements

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Year ended 31 December 2018

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## 2 Accounting Policies

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



## The Crisis Resolution Fund

### Financial Statements

Year ended 31 December 2018

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. The 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 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 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 Crisis Resolution Fund

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### Financial Statements

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Year ended 31 December 2018

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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 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.

## 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.

## The Crisis Resolution Fund

### Financial Statements

Year ended 31 December 2018

## 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.

### 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.

**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 Crisis Resolution Fund

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### Financial Statements

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Year ended 31 December 2018

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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 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 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 tangible fixed 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 tangible fixed 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 tangible fixed 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 intangible fixed 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.

The Crisis Resolution Fund

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Financial Statements

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Year ended 31 December 2018

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### **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 management.

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.

## **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'.

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#### 2.14 Contributions Received from Banks

Contributions to the Crisis Resolution Fund are posted to the contributions 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.

#### 2.16 Equity – Funds

Based on a decision of the Board of Directors, the financial result (profit or loss for the current year) is transferred within the Crisis Resolution Fund's equity to Retained earnings / Accumulated losses of previous years or to Equity – Funds. The subsequent transfer of retained earnings of previous years from Retained earnings / Accumulated losses of previous years to Equity – Funds 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 the Equity – Funds account and the financial result (i.e. profit/loss).

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

(CZK '000)	2018	2017
<b>Crisis Resolution Fund:</b>		
Opening balance - 1 January	5,983,802	2,958,882
Contributions received (see note 3.4.)	3,111,476	3,024,920
Operational Fund	736	0
<b>Closing balance – 31 December</b>	<b>9,096,014</b>	<b>5,983,802</b>

**3.3** Liabilities

A liability for the Crisis Resolution Fund to reimburse costs connected with the management of the Crisis Resolution Fund against the Deposit Insurance Fund of CZK 2,706,000 (2017: CZK 5,776,000). 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)	2018	2017
Contributions received from banks	3,111,476	3,024,920

By 31 May 2018, banks and selected investment firms had made contributions to the Crisis Resolution Fund, as prescribed by the Czech National Bank, totalling CZK 3,111,476,000 (2017: CZK 3,024,920,000).

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

(CZK '000)	2018	2017
<b>Revenues:</b>		
Interest revenue	76,215	6,490
Foreign exchange gains	0	3
<b>Sundry other revenues</b>	<b>15</b>	<b>0</b>
<b>Total</b>	<b>76,230</b>	<b>6,493</b>
<b>Expenses:</b>		
Purchases consumed	-48	-61
Services	-911	-1,175
Personnel costs	-1,670	-1,987
Taxes and fees	0	-1
Foreign exchange losses	-5	-1
Other expenses (see note 3.8.)	-819	-587
<b>Total</b>	<b>-3,453</b>	<b>-3,812</b>

The 2018 financial result will be handled as follows: the revenues of CZK 76,230,000 will be transferred to the Operational Fund of the Crisis Resolution Fund and the expenses of CZK 2,717,000, i.e. the total expenses of CZK 3,453,000 reduced by the expenses paid from the Operational Fund of the Crisis Resolution Fund totalling CZK 736,000, will be paid after approval of the financial statements as part of the settlement of the Deposit Insurance Fund's receivables from the Crisis Resolution Fund.

The average number of employees of the Financial Market Guarantee System is ten, of which one is a management employee. Total wage costs in 2018 amounted to CZK 12,460,000 (2017: CZK 11,777,000). The share of wage costs covered by the Crisis Resolution Fund amounts to CZK 1,226,000 (2017: CZK 1,462,000).



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## 3.6 Other Revenues and Other Expenses

(CZK '000)	2018	2017
<b>Revenues:</b>		
Other	15	0
<b>Total</b>	<b>15</b>	<b>0</b>
<b>Expenses:</b>		
Other	-819	-587
<b>Total</b>	<b>-819</b>	<b>-587</b>

In 2018, the auditor PricewaterhouseCoopers Audit, s.r.o., was reimbursed for the statutory audit of the financial statements for 2017. The auditor's fee was CZK 472,000 (2017 Ernst & Young, Audit, s. r. o.: CZK 363,000). The Crisis Resolution Fund's share of these costs is CZK 46,000 (2017: CZK 45,000).

In 2018, 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 (2017: 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. The Crisis Resolution Fund's share of these costs is CZK 9,000 (2017: CZK 11,000).

## 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 Crisis Resolution Fund. In 2018, 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 2018 totalled CZK 31,567,000 (2017: CZK 32,371,000), of which CZK 28,865,000 (2017: CZK 29,039,000) was expenses related to the management of the Deposit Insurance Fund and CZK 2,702,000 (2017: CZK 3,332,000) was expenses related to the management of the Crisis Resolution Fund.

With regard to the lack of resources in the Operational Fund of the Crisis Resolution Fund in 2016, 2017 and 2018, the costs related to the management of the Crisis Resolution Fund, which are comprised of operating expenses, expenses related to securities management, expenses for asset acquisitions and the share of the Crisis Resolution Fund in asset depreciation, in accordance with Section 207 (2) of the AFCPR and Article 6.4 of the Statute of the Financial Market Guarantee System, were paid from the resources of the Deposit Insurance Fund, while in accounting terms this is a receivable of the Deposit Insurance Fund from the Crisis Resolution Fund. After approval of the 2017 financial statements, the 2017 profit was transferred to the Operational Fund of the Crisis Resolution Fund; the Operational Fund was used to cover operating expenses of the Crisis Resolution Fund. After approval of the 2018 financial statements, the 2018 profit will be transferred to the Operational Fund of the Crisis Resolution Fund. The remaining balance of assets in the Operational Fund of the Crisis Resolution Fund can be used for expenses related to the management of the Crisis Resolution Fund in subsequent years.

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### 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 2018.

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

Prague, 17 June 2019



Renáta Kadlecová

Chairperson of the Management Board and Executive Director



Tomáš Hejduk

Member of the Management Board and Chief Legal Manager