



ANNUAL REPORT
2006



CONTENTS

I. Introduction by the President of the Board of Administration.....	4.
II. Statutory Body	5.
III. Activities of the Deposit Insurance Fund in 2006.....	6.
Role of the Deposit Insurance Fund	
Act on Banks	
Disbursement of Compensation	
Receivables of the Deposit Insurance Fund from Banks	
Contributions from Banks	
Investment Activities	
International Cooperation	
IV. Overview of the Total Income and Expenditure of the Deposit Insurance Fund... 21.	21.
V. Profit/loss Account as of 31 December 2006.....	22.
VI. Balance Sheet as of 31 December 2006.....	23.
VII. Auditor's Report.....	24.
Appendix to the Financial Statements for 2006.....	25.

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I INTRODUCTION BY THE PRESIDENT OF THE BOARD OF ADMINISTRATION

The Deposit Insurance Fund is publishing its twelfth annual report, this time for 2006. It is astonishing that an institution which evokes quiet, solidity and certainty, as I hope, has actually experienced an altogether hectic period in its history. The year 2006 was one of the most hectic.

Two important events, or if you like, cases made a significant mark on the daily activities of the Fund and its board of administration. You can see for yourself to what extent these two sources of increased activity interrelate.

Everyone who follows events concerning deposit insurance to some extent must have felt the tension when following the outcome of the chamber of deputies' draft amendments to the Act on Banks which was to introduce additional disbursement of deposit compensation up to CZK 4 million to clients of the Union banka, Kreditní banka Plzeň and Plzeňská banka. This would also include persons who acted as representatives at the time and in agreement with the state took upon themselves the burden of the disbursements. I do not intend to comment on the progress of these steps here. The entire matter, at least for now, was settled by the Constitutional Court with the generally known verdict.

The other matter — or case — was the process of creating the European Forum of Deposit Insurers (EFDI). For almost two years preparatory work has been underway, discussions, settlement of legal and personnel issues particularly the creation of the Forum's Statutes culminated in the autumn with the emerging consensus above the text of the Statutes. It is difficult to say whether the cause of the delays was the legal complexity of such a document or the multiplicity, diversity and historic dependence of this or that system in whatever country. This includes the complications involving the fact that the EFDI is to be a partner of the European Commission in deposit insurance issues, but the EFDI is also an organisation of all European countries even European Union non-member countries.

Both these events continued, how else, into 2007 and who is to say if they will be settled this year. And where is the parallel which I mentioned as a way of introduction?

The parallel is reversed and involves the fact that on the one hand there are repeated (internal political, human fate, equal approach to all motivated) attempts to manage deposit insurance so they respect the historic aspects and particular interests of the groups of insured, then

on the other hand — in the case of the EFDI, but also other organisations such as the IADI (International Association of Deposit Insurers) — structures are being created seeking the broadest implementation of uniform international practice, share of information and experience in the multiple community of European and non-European insurers. In other words, the best practice on a broad international scale is being sought as well as for deposit insurance systems to at least be in some sort of balance and not compete against each other and not to create a breeding ground for what we call a moral hazard.

Josef Tauber

President of the Board of Administration

II. STATUTORY BODY

The Deposit Insurance Fund is managed by a five-member Board of Administration. The President, Vice-president and other members of the Board of Administration (hereinafter referred to as the "Fund") are appointed and removed from office by the Finance Minister. Pursuant to Section § 41b (5) of the Act on Banks, at least one member of the Fund's Board of Administration, is appointed from among the ranks of employees of the Czech National Bank at the recommendation of the Czech National Bank, and at least two members of the Fund's Board of Administration are appointed from among the ranks of members of the boards of directors of banks. The term of office of individual members of the Board of Administration is five years, and one new member is appointed each year. There is no remuneration for the tenure of a member

of the Board of Administration. The Fund's Board of Administration is the statutory body of the Fund and manages its activities. The Board of Administration appoints an executive director who is the head of the Fund's entire executive staff.

As of 3 February 2006, the Finance Minister removed Václav Křivohlávek from the office of member of the Board of Administration and appointed Petr Vojtíšek Vice-president of the Board of Administration. As of 3 February 2006 the Finance Minister appointed two new members to the Board of Administration, Klára Cetlová and Petr Kielar. As of 30 June 2006 Petr Kielar resigned from the office of member of the Board of Administration and as of 1 July 2006 the Finance Minister appointed Jiří Šperl new member of the Board of Administration.

Membership of the Board of Administration in 2006

President:	Josef T a u b e r – Directors general and Second Vice-president of the Board of Directors of Česká exportní banka, a.s.
Vice-president:	Petr V o j t í š e k – Deputy Director of the Section of the Czech National Bank as of 3 February 2006
Members:	Daniel H e l e r – Deputy Director General and member of the Board of Directors of Česká spořitelna, a.s. Václav K ř i v o h l á v e k – Department Director of the Ministry of Finance of the Czech Republic to 3 February 2006 Petr V o j t í š e k – Deputy Director of the Section of the Czech National Bank to 3 February 2006 Klára C e t l o v á – Department Director of the Ministry of Finance of the Czech Republic as of 3 February 2006 Petr K i e l a r – Deputy Director and member of the Board of Directors of the Českomoravská stavební spořitelna, a.s., from 3 February 2006 to 30 June 2006 Jiří Š p e r l – Deputy Director and Member of the Board of Directors of Modrá pyramida stavební spořitelna, a.s. as of 1. July 2006
Executive director:	Pavel T r n k a – to 31.3.2006 Renáta Č e c h o v á – from 1.4.2006

III. ACTIVITIES OF THE DEPOSIT INSURANCE FUND IN 2006

Role of the Deposit Insurance Fund

The main subject matter of the Fund's activities is to compensate authorised persons for their receivables from deposits under the terms and conditions set forth in the provisions of Section 41a et seq. of the Act on Banks No. 21/1992 Coll., as amended, (hereinafter referred to as the "Act on Banks").

The Fund's further activities include the following:

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

Act On Banks

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

Pursuant to the Act on Banks, all banks and branch offices of foreign banks, with the exception set forth in Section 41l of the Act on Banks and Section 5a of the Act on Banks, which came into effect as of the date on which the agreement of the Czech Republic's accession to the European Union came into force, shall be obliged to participate in a system of insuring receivables from deposits and contribute to the Fund to the scope determined by the Act on Banks. As of 2006 cooperative savings banks are obliged to participate in the system of insuring receivables from deposits and contribute to this system to the scope determined by the Act on Banks and cooperative savings banks.

Pursuant to Section 41c of the Act on Banks, the insurance applies to all receivables from deposits in Czech or foreign currency, including interest when the requirements for identifying depositors are met in accordance

with Section 41c (3) of the Act on Banks, which are registered as a credit balance on accounts or in savings books, or which are endorsed through a deposit certificate, deposit note or other similar document. Natural persons are identified by name, surname, address and date of birth or birth certificate number of the depositor, or an identification number, and in the case of legal entities by their business name or name of the legal entity, its registered office, in the case of domestic legal entities also by their identification number. Insurance does not apply to receivables from bank deposits, financial institutions, health insurance companies and state funds. Receivables from deposits that a bank is entitled to partially include in its capital (subordinated debt) are not insured either. The system of insuring receivables from deposits does not apply to bills of exchange and other securities.

Compensation for an insured receivable from a deposit shall be granted to the Fund's authorised person only after the Fund has received notification in writing from the Czech National Bank that a bank is not able to meet its commitments in respect of the authorised person and legal entities under legal and contractual conditions and terms. Compensation is granted both to natural persons and legal entities up to an amount equal to 90% of all insured deposits made by one depositor with one bank, the maximum amount being, however, an equivalent of EURO 25 000. Compensation for foreign exchange deposits is disbursed in Czech currency. Pursuant to Section 41g (3) of the Act on Banks, however, those persons who have a special relationship towards the bank concerned and holders of deposits arising in conjunction with the legalisation of proceeds resulting from criminal activities for which they were finally sentenced by a court of law in legal prosecution proceedings, are not entitled to be granted compensation from the Fund's deposits.

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

Pursuant to the Act on Banks, branches of foreign banks operating in the Czech Republic may provide supplementary insurance for receivables from deposits based on an agreement with the Fund providing that the home system of insurance is less favourable for the branch depositor than the insurance of receivables from deposits pursuant to the Act on Banks. So far HSBC Bank, plc – pobočka Praha has made use of this option and arranged supplementary insurance with the Fund for the deposit of legal entities up to EURO 25 000.

On 18 September 2006 Act No. 443/2006 Coll. came into force which amended Act No. 178/2005 Coll. on the Winding up of the National Property Fund of the Czech Republic and the competence of the Finance Ministry with the privatisation of the assets of the Czech Republic, and Act No. 319/2001 Coll. which amends Act No. 21/1992 Coll., on Banks as amended. This Act lays down that the Fund disburses additional compensation of deposits to clients of the Union banka, a.s., Plzeňská banka, a.s. and Kreditní banka Plzeň, a.s. The Fund subsequently began preparing for the disbursement of this additional compensation for deposits. In October 2006 a group of senators submitted to the Constitutional Court a petition to annul these parts of the temporary provisions of Act No. 319/2001 Coll. which became part of this Act under Act No. 443/2006 Coll. In view of the fact that the Fund did not have at its disposal all the data required to disburse the additional deposit compensation which was to begin by 18 December 2006, and also in view of the filed constitutional complaint, the Board of Administration requested in November 2006 the Czech National Bank to extend the date for the start of the disbursement of additional deposit compensation. The Czech National Bank, upon agreement with the Finance Ministry complied with the request. Subsequently in February 2007 the Constitutional Court complied with the petition of the group of senators and annulled said temporary provision of Act No. 443/2006 Coll. Disbursement of the additional compensation did not take place.

Disbursement of Compensation

Pursuant to Section 41a (5) of the Act on Banks, the Fund may only withdraw funds from the Fund for the compensation of receivables from deposits to authorised persons and for repayment of the Fund's debts. In the course of its existence, the Fund has disbursed compensation for deposits in sixteen cases as at 31 December 2006,

granted in the form of twelve regular and four additional payments as compensation to depositors of twelve banks to a total amount of CZK 25.495 billion.

In 2006 the Fund continued to disburse regular compensation to depositors of Union banka, a.s. and Plzeňská banka, a.s., as well as disburse additional compensation to depositors of Pragobanka, a.s., Universal banka, a.s. and Moravia Banka, a.s. A summary of disbursed regular and additional compensation for 2006 was the sum of CZK 10.03 million.

Total compensation for deposits disbursed as at 31 December 2006 decreased in comparison with the same period of 2005 for during the course of 2006 a further sum was returned to the Fund's account of additional compensation from deposits unjustifiably disbursed to depositors of Moravia banka, a.s. of CZK 28.11 million. The reason why the Fund made this unjustifiable disbursement was that the Fund received incorrect data from the trustee (administrator) in bankruptcy for the disbursement of additional compensation from deposits in 565 cases. After discovering this fact, the Fund asked the clients, who unjustifiably collected this compensation to return it. The total sum of this returned deposit compensation that these persons returned voluntarily after being called upon to do so by the Fund, based on a court decision, court settlement or out-of-court agreement, is CZK 102.19 million.³

Disbursement of Compensation from the Deposit Insurance Fund by 31 December 2006

(in CZK millions)

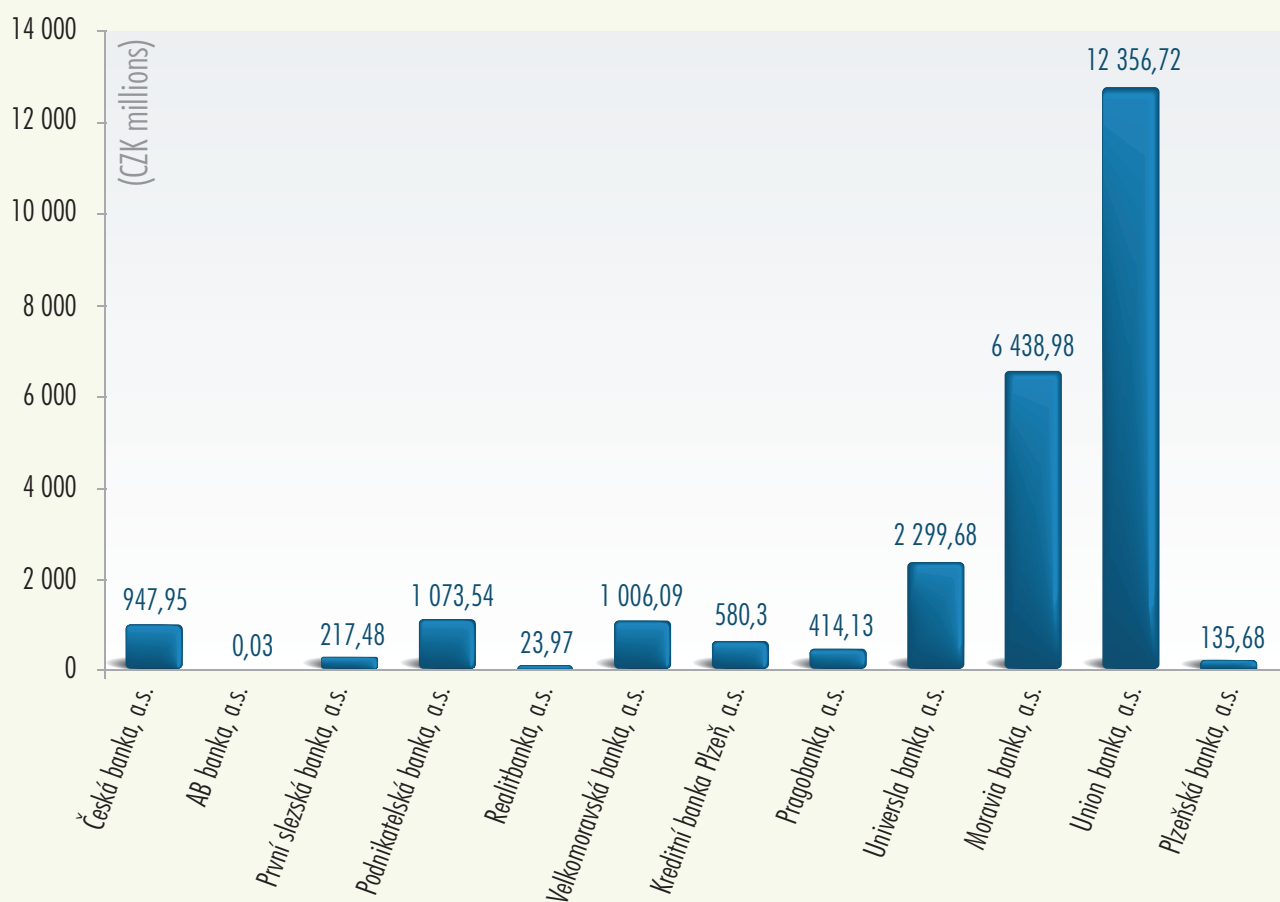
Bank	Date of commencement of Compensation disbursement	Disbursed compensation by 31 December 2006
Česká banka, a.s. ¹	11. 12. 1995	947,95
AB banka, a.s.	31. 1. 1996	0,03
První slezská banka, a.s.	15. 5. 1996	217,48
Podnikatelská banka, a.s.	17. 6. 1996	1 073,54
Realitbanka, a.s.	24. 7. 1996	23,97
Velkomoravská banka, a.s.	29. 7. 1996	1 006,09
Kreditní banka Plzeň, a.s.	23. 9. 1996	580,30
Pragobanka, a.s. ²	1. 12. 1998	414,13
Universal banka, a.s. ²	17. 5. 1999	2 299,68
Moravia banka, a.s. ²	11. 10. 1999	6 438,98
Union banka, a.s.	17. 5. 2003	12 356,72
Plzeňská banka, a.s.	7. 6. 2003	135,70
TOTAL		25 494,57

¹ disbursement of additional compensation commenced on 8 June 1998

² disbursement of additional compensation commenced on 4 January 2002

³ in 2004 compensation was returned of CZK 18.56 million debited to the disbursed deposit compensation, as of 2005 it is part of the Fund's income (see table on page 15- IV.Fund's Total Income)

Disbursement of Compensation from the Deposit Insurance Fund by 31 December 2006



Receivables of the Fund from Banks

Pursuant to Section 41h (2) of the Act on Banks, the Fund shall become the creditor, as of the disbursement commencement date, of a bank which has failed to meet its commitments under legal contractual terms and conditions to the scope of the rights of the bank's authorised persons to be paid by the Fund. The table below shows a summary of the Fund's receivables for individual banks registered as of 31 December 2006 for the purpose of bankruptcy proceedings of disbursed banks totalling CZK 21 824.06 million. A preliminary schedule has been drawn up in five banks with a total received advance for the Fund of CZK 2 822.27 million.

Summary of Receivables Registered for Bankruptcy Proceedings

as of 31 December 2006

(in CZK millions)

Bank	Type of Disbursements	Registration for Bankruptcy	Returned to the Fund	Receivables in Bankruptcy
Česká banka, a.s.	Regular	518,56		
	Additional	443,11		961,67
AB banka, a.s.	Regular	0,23	0,01	0,22
První slezská banka, a.s.	Regular	217,50	7,61	209,89
Realitbanka, a.s.	Regular	24,20		24,20
Velkomoravská banka, a.s.	Regular	1 006,63		1 006,63
Kreditní banka Plzeň, a.s.	Regular	580,95	29,05	551,91
Universal banka, a.s.	Regular	1 862,64	302,29	1 560,35
Moravia banka, a.s.	Regular	4 753,70		4 753,70
Union banka, a.s.	Regular	12 416,54	2 483,31	9 933,23
TOTAL		21 824,06	2 822,27	19 001,80

In 2006 composition was made for Plzeňská banka, a.s. as part of the closing schedule during which the Fund received the sum of CZK 70.67 million. Judicial composition had already been made in the case of Podnikatelská banka, a.s. and composition as part of the closing schedule in the case of Pragobanka, a.s.

The Fund therefore no longer has any receivables from these three banks as of 31 December 2006. The summary of these satisfied receivables for the banks including received revenue and proceeds is shown in the following table.

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

as of 31 December 2006

(in CZK millions)

Bank	Type of Disbursements	Total Receivables	Returned to the Fund	Proceeds (%)
Podnikatelská banka, a.s.	Regular	1 075,53	548,52	51,00
Pragobanka, a.s.	Regular + additional	348,20	184,33	52,94
Plzeňská banka, a.s.	Regular	134,85	70,67 ⁴	52,41
TOTAL		1 552,58	803,52	51,75

⁴ besides this consideration the Fund in 2004 received bankruptcy assets from Plzeňská banka, a.s. to the amount of CZK 1,025 million as additional payment of the contribution for insured deposits for 2003

Contributions from Banks

In 2006 banks and building societies paid a total of CZK 1 329.59 million of contributions into the Fund for the calculation base of 2005. A summary of contributions is shown in the following table which the Fund received since its establishment in 1994.

Contributions from Banks to the Fund by Year

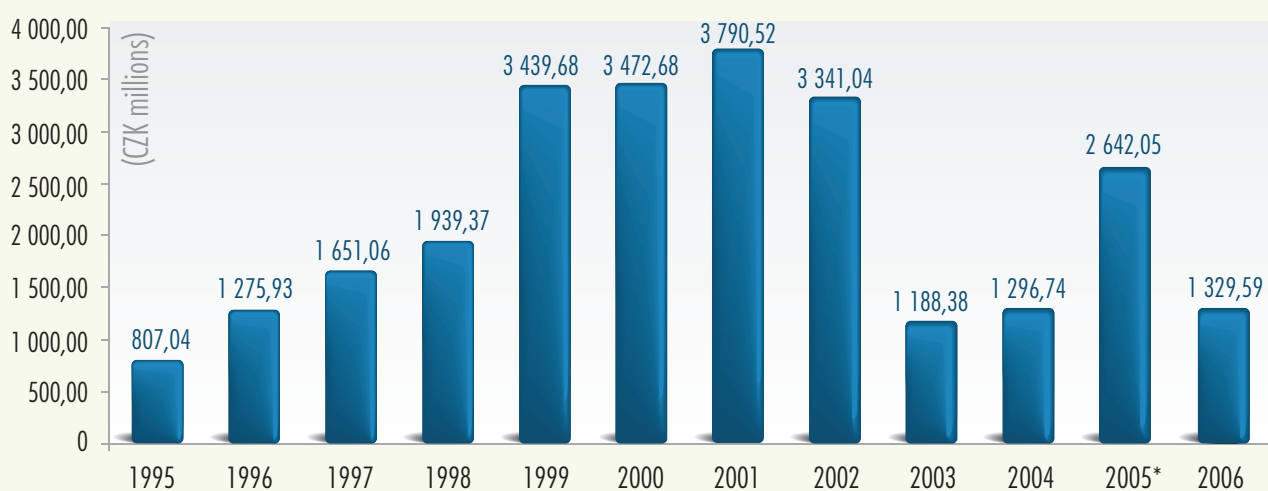
as of 31 December 2006

(in CZK millions)

Basis of calculation (year)	Year of contribution disbursement	Amount
1994	1995	807,04
1995	1996	1 275,93
1996	1997	1 651,06
1997	1998	1 939,37
1998	1999	3 439,68
1999	2000	3 472,68
2000	2001	3 790,52
2001	2002	3 341,04
2002	2003	1 188,38
2003	2004	1 296,74
2004	2005*	2 642,05
2005	2006	1 329,59
TOTAL		26 174,08

* including advances in December 2004

Contributions of Banks to the Deposit Insurance Fund



* including advances in December 2004

The amount of contribution is governed by an amendment to the Act on Banks No. 126/2002 Coll., Section 41c (6) and (7). The annual contribution of a bank to the Fund has been reduced by the aforesaid amendment to 0.1% of the average volume of the insured receivables from deposits in the previous year, including interest. The average volume of insured receivables from deposits is calculated by the bank according to the status of insured receivables from deposits as of the last day of each calendar month in the previous year, including interest accrued in favour of the depositor as of that day. The annual contribution of a building society to the Fund has been reduced by the aforesaid amendment to 0.05 % of the average volume of insured receivables from deposits for the previous year, including interest accrued in favour of the party in building society savings in the previous year. The average volume of insured receivables from deposits is calculated by the building society according to the quarterly status of insured receivables from deposits in the previous year without setting off prepaid state grant-in-aid. Banks and building societies are obliged to pay their contribution to the Fund for the previous year no later than by 31 January of the current year. The contribution is paid

in Czech crowns.

Since 2006 the deposits of cooperative savings banks (credit unions) are also insured by the Fund as they are obliged to make an annual contribution as of this year to the Fund to the amount made by banks, i.e. of 0.1 % of the average volume of insured receivables from deposits for the previous year including interest.

Bank and building society contributions for 2004 made in January 2005 were increased under Section 41k of the Act to twice the rate because the Fund accepted a medium-term syndicated loan in 2003 to secure sufficient funds for disbursement of compensation to depositors of Union banka, a.s. In view of its early repayment the contributions were reduced from the following year back to the original rate set forth in Section 41c (6) and (7) of the Act.

Of the branches of the foreign banks operating in the Czech Republic only one branch, HSBC Bank, plc - pobočka Praha, participated in the system of insuring receivables from deposits in 2006. The other foreign bank branches did not participate in the system of insuring receivables from deposits in accordance with Section 41l of the Act.

Number of Institutions Contributing to the Fund

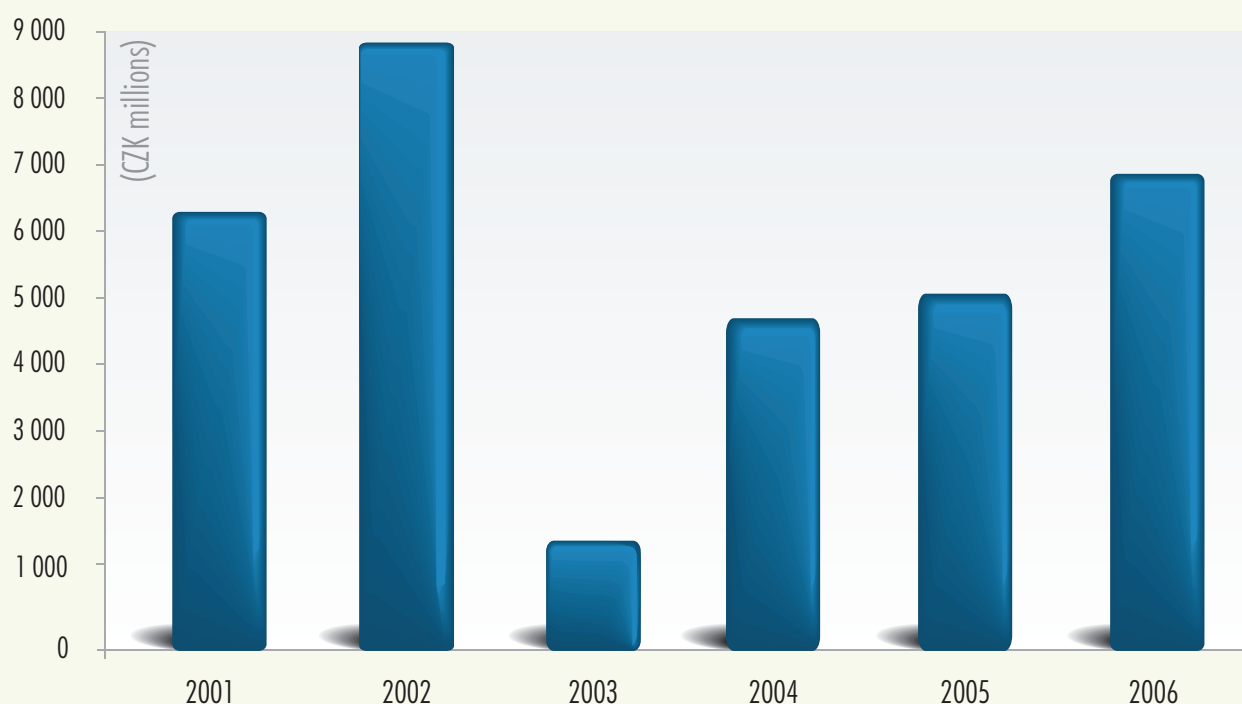


* 7 foreign bank branches paid contributions only for the period of January-April 2004

Investment Activities

The volume of the Fund's financial reserves increased in 2006 to CZK 6.4 billion. Approx. 50% of the Fund's financial reserves in 2006 were administered by two investment managers and a further approx. 50 % directly by the Fund. The volume of financial reserves administered directly by the Fund in 2006 was higher than in previous years in view of the uncertain legislative situation regarding disbursement of additional deposit compensation and also the need to maintain the highest volume of liquid funds possible.

Trend in the Volume of the Funds's Financial Reserves 2001 – 2006



The financial reserves administered directly by the Fund were invested in short-term bonds, i.e. government treasury bills and bills issued by the Czech National Bank. Investment managers invested in entrusted funds according to the agreed investment policy. Those most significantly represented at the end of 2006 in the portfolio were the short-term government bonds (55.8 %), publicly tradable bonds of banks and corporations (18 %), domestic medium-term and long-term government bonds (19.2 %). A smaller part of financial reserves were allocated to bonds issued by EU member countries (2.8 %), share certificates (1.7 %) or short-term deposits (2.5 %).

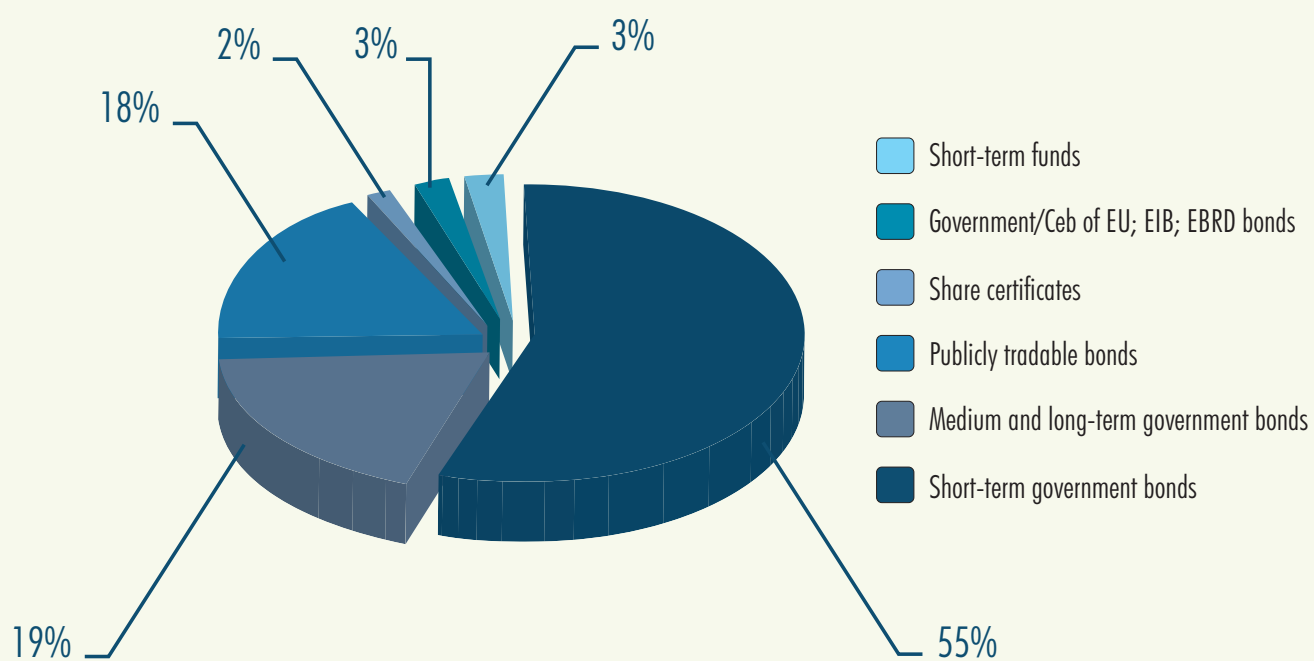
Structure of the Portfolio by Instrument as of 31 December 2006

(in CZK millions)

	Type of instrument	Market value*
I.	Current accounts and term deposits	158,53
II.	Bonds:	6 147,06
	<i>Of these: T-bills and CNB bills</i>	<i>3 578,42</i>
	<i>Medium-term and long-term government bonds</i>	<i>1 234,17</i>
	<i>Bank and corporate bonds</i>	<i>1 154,75</i>
	<i>IBRD, EIB and EU member state government bonds</i>	<i>179,72</i>
III.	Bond Fund shares	106,20
IV.	Swaps	10,48
TOTAL		6 422,27

* does not contain account balances at GE Money bank, a.s. and Komerční banka for the disbursement of deposit compensation

Structure of the Portfolio as of 31.12.2006



Method of investing financial reserves is projected into the structure of maturity where bonds accounted for most of the reserves with a residual maturity of up to 1 year (64 % of the volume of the portfolio). The total scope of maturity of the bonds in the Fund's portfolio was extended in 2006 because the financial reserves were also invested in newly issued government bonds with a maturity of 30 years (0.06 % of the portfolio volume).

Structure of the Portfolio by Maturity as of 31.12.2006

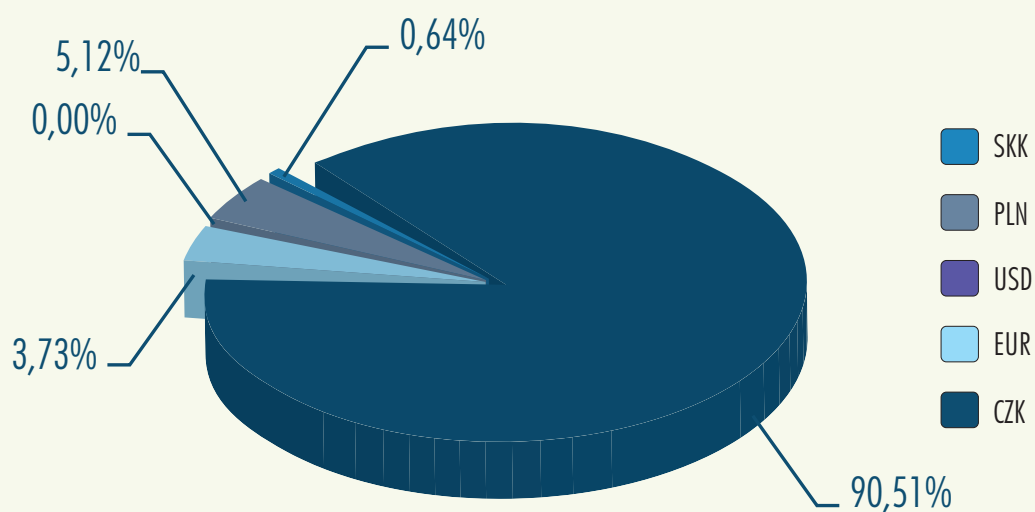
(in CZK millions)

	Maturity of instrument	Market value *
I.	Up to 1 year	4 106,16
II.	From 1 to 3 years	1 064,79
III.	From 3 to 5 years	687,19
IV.	From 5 to 10 years	363,68
V.	From 10 to 20 years	90,20
VI.	Over 20 years	4,05
VII.	Bond Fund shares	106,20
TOTAL		6 422,27

* does not contain balance on accounts at GE Money bank, a.s. and Komerční banka for disbursement of deposit compensation

As part of the agreed investment policy, investment managers invested part of the financial reserves into bonds issued in foreign currencies (EUR, PLN, USD and SKK). The foreign currency bonds at the end of the year amounted 9.5 % of the portfolio's volume.

Portfolio Currency Structure as of 31.12.2006



In 2006 the Fund's return on financial reserves reached 2.51% p.a. The total gross profit from the Fund's invested financial reserves thus amounted to CZK 152.6 million. The return on financial reserves administered by investment managers reached 2.78 % p.a. while the performance of the portfolio did not narrowly (by 3 bps) achieve the benchmark performance (index GPRI3m).

International Cooperation

In 2006 the Fund continued to develop contacts with similar institutions abroad particularly as part of its membership of the International Association of Deposit Insurers – IADI) and the European Forum of Deposit Insurers – EFDI).

In October 2006 the International Association of Deposit Insurers organised the fifth Annual General Meeting and Conference in Rio de Janeiro (Brazil) at which the IADI's manuals were presented concerning the funding of deposit insurance systems, governance, designating effective mandates and claims and recoveries. Prior to the start of the conference the "Deposit Insurer of the Year" award was presented for the second time for contribution to financial stability and development of international cooperation, this time to the Canada Deposit Insurance Corporation. The conference was also accompanied by the second international deposit insurance exhibition in which 40 organisations took part including the Fund.

This conference preceded the 16th meeting of the IADI Executive Council during which the meetings of standing and regional IADI committees were also held.

The next working meetings of the IADI Executive Council were held in May in Basel, Switzerland and in September in Kuala Lumpur, Malaysia. The second meeting of the European Regional Committee presided over by the Fund's Board of Administration President since September 2005, was held in January in Prague.

In 2006 the European Forum of Deposit Insurers focused on deepening cooperation with the European Commission as part of the revision of Directive No. 94/19/ES on Deposit Insurance Systems. In June a meeting of a working group of EU countries was held in Berlin on this topic at which the EU Joint Research Centre's study results were presented. The study's purpose was to provide quantitative data for the European Commission for their report on the minimum amount of deposit insurance and the consequences of the change in the method of financing of deposit insurance systems in the EU. In November the EFDI Annual meeting was held in Palermo, Italy at which proposals for an amendment to the Statute were discussed. A seminar followed up this session focusing on problems relating to cross-border activities

of banks significant for their deposit insurance systems.

Another meeting of the working group of the Banking Advisory Committee on deposit insurance systems was held at the European Commission in Brussels in May for the purpose of discussing the proposal and procedures of revising Directive No. 94/19/ES on Deposit Insurance Systems.

IV. OVERVIEW OF THE TOTAL INCOME AND EXPENDITURE OF THE FUND

Summary of Income and Expenditure of the Fund during 1995 – 2006

(in CZK millions)

INCOME	
Contributions from banks 1995 – 2006	26 174,08
Income from judicial composition and bankruptcy proceedings	3 626,80
Return of disbursed compensation	83,63
Interest and other revenue	2 358,51
– <i>interest from investment</i>	2 355,46
– <i>other financial revenue</i>	3,05
Loans received	3 000,00
INCOME TOTAL	35 243,02

(in CZK millions)

EXPENDITURE	
Reimbursement of premiums 1995 – 2006	25 590,78
Operations expenses	122,71
Loan interest	121,16
Loan repayment	3 000,00
EXPENDITURE TOTAL	28 834,65

(in CZK millions)

DIFFERENCE BETWEEN INCOME AND EXPENDITURE	
	6 408,37

V. PROFIT AND LOSS ACCOUNT AS AT 31. 12. 2006

(CZK thousands)

	Value
Interest	2 474,90
Foreign exchange gains	1,28
Other revenues	43 263,82
Revenues from sale of securities and investments	46 622 012,45
Revenues from short-term financial assets	156 807,06
Total account class 6	46 824 559,51
Material consumption	749,71
Energy consumption	13,35
Repairs and maintenance	116,76
Travel expenses	591,23
Entertainment expenses	104,73
Other services	4 669,01
Wage and salary costs	3 240,53
Statutory social security	1 130,69
Statutory social security expenses	49,65
Other social security expenses	66,51
Road tax	2,30
Other taxes and fees	45,60
Interest	0,12
Other fines and penalties	0,00
Foreign exchange losses	10,85
Other expenses	49 721,45
Depreciation of long-term intangible and tangible assets	263,68
Securities and investments sold	46 631 576,50
Total account class 5	46 692 352,65
PROFIT/LOSS AFTER TAX	132 206,85

VI. BALANCE SHEET AS AT 31. 12. 2006

(CZK thousands)

ASSETS	
1. Fixed assets	653,85
<i>Of which:</i>	
1.1. intangible fixed assets	65,43
1.2. land	0,00
1.3. real estate	0,00
1.4. movables	1 665,55
1.5. accumulated depreciation	-1 077,14
1.6. financial investments	0,00
2. Current assets	25 519 497,49
<i>Of which:</i>	
2.1. inventory	0,00
2.2. receivables – advance payments for operating inventory	157,89
2.3. receivables – employees	0,07
2.4. other receivables	19 081 402,50
2.5. receivables from state budget, taxes	0,00
2.6. bank accounts, stamps, cash	181 580,69
2.7. shares	106 203,56
2.8. debt securities	6 147 063,68
2.9. temporary accounts of assets	3 089,10
TOTAL ASSETS	25 520 151,34

(CZK thousands)

LIABILITIES	
1. Equity financing	25 400 458,75
<i>Of which:</i>	
1.1. funds	20 859 367,82
1.2. gains and losses from revaluation of assets	0,00
1.3. retained earnings from previous years	4 408 884,08
1.4. profit/loss 2006	132 206,85
2. External financing	119 692,59
<i>Of which:</i>	
2.1. legal reserves (provisions)	0,00
2.2. long-term liabilities	0,00
2.3. short-term liabilities	119 692,59
2.5. estimated accrued expenses	0,00
TOTAL LIABILITIES	25 520 151,34

VII. AUDITOR'S OPINION

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF ADMINISTRATION OF THE DEPOSIT INSURANCE FUND

We audited the enclosed financial statements of the Deposit Insurance Fund (hereinafter referred to as the "Fund") i.e. the balance sheet as at 31 December 2006, the profit and loss account for 2006 and the appendix, including a description of the fundamental accounting rules (hereinafter referred to as the "Financial Statements"). The data on the Fund are set forth in item 1 of the appendix to these financial statements.

Responsibility of the Fund's Board of Administration for the Financial Statements

The Fund's board of administration is responsible for the preparation and faithful picture of the financial statements in accordance with the Czech accounting regulations. Part of this responsibility is to propose, introduce and ensure the internal audit over the preparation and faithful picture of the financial statements so they do not contain major discrepancies caused by fraud or error, select and implement appropriate accounting rules and make reasonable accounting estimates for the situation in question.

Role of the Auditors

Our role is to issue an opinion to these financial statements on the basis of the conducted audit. We conducted the audit in accordance with the Act on Auditors in force in the Czech Republic, the International Audit Standards and related application clauses of the Chamber of Auditors of the Czech Republic. In accordance with these regulations we are obliged to observe the ethical requirements and plan and conduct the audit so we can be reasonably certain that the financial statements do not contain major discrepancies.

The audit includes auditing procedures the purpose of which is to gain corroborative information on the amounts and information set forth in the financial statements. The choice of the auditing procedures depends on the auditor's judgement, including the assessment of the risks of major discrepancies in the data in the financial statements caused by fraud or error. When assessing these risks the auditor will take into account the internal audit relevant for preparing and a faithful picture of the financial statements. The purpose of this assessment is to propose appropriate auditing procedures and not express an opinion of the efficiency of the internal audit. The audit also includes an assessment of the adequacy of the accounting rules applied, the appropriateness of accounting estimates conducted by the management and an assessment of the overall presentation of the financial statements.

We believe that the acquired corroborative information provides an adequate and appropriate basis for an expression of our opinion.

Opinion

In our opinion the financial statements provide a true and faithful picture of the Fund's financial position as at 31 December 2006 and its economic efficiency for 2006 in accordance with Czech accounting regulations for non-profit organisations.

6 June 2007

PricewaterhouseCoopers Audit, s.r.o.
Represented by partner Petr Kříž
auditor, certificate no. 1140

APPENDIX TO THE FINANCIAL STATEMENTS FOR 2006

BALANCE SHEET AS AT 31 DECEMBER 2006

(CZK thousands)

ASSETS	Balance as at 1 January 2006	Balance as at 31 December 2006
A. Total long-term assets	310	654
I. Long-term intangible assets – software	0	65
II. Long-term tangible assets – machinery, equipment	1 124	1 666
IV. Total accumulated depreciation of long-term assets:	- 814	- 1 077
2. Accumulated depreciation of software	0	- 4
7. Accumulated depreciation of machinery and equipment	- 814	- 1 073
B. Total short-term assets	24 027 258	25 519 497
II. Total receivables	19 152 864	19 081 560
4. Advance operating payments given	132	158
6. Receivables from employees	12	0
17. Other receivables	19 152 720	19 081 402
III. Total short-term financial assets	4 874 358	6 434 848
1. Cash	27	17
3. Bank accounts	135 443	181 563
4. Tradable property securities	104 277	106 204
5. Tradable bonds, debentures and similar securities	4 634 611	6 147 064
IV. Total other assets	36	3 089
1. Deferred expenses	36	3 089
TOTAL ASSETS	24 027 568	25 520 151

(CZK thousands)

LIABILITIES	Balance as at 1 January 2006	Balance as at 31 December 2006
A. Total equity financing	23 898 975	25 400 459
I. Equity – funds	19 490 091	20 859 368
II. Total profit/loss	4 408 884	4 541 091
1. Profit/loss account	x	132 207
2. Income/profit in approval proceedings	169 306	x
3. Retained earnings from previous years	4 239 578	4 408 884
B. Total external financing	128 593	119 693
III. Total short-term payables	128 593	119 693
1. Suppliers	8	2 978
5. Employees	152	159
6. Other payables to employees	0	5
7. Payables to social security and public health insurance	105	113
9. Other direct taxes	41	47
17. Other payables	125 753	115 402
22. Estimated accrued expenses	2 534	988
TOTAL LIABILITIES	24 027 568	25 520 151

PROFIT AND LOSS FOR YEAR ENDING 31 DECEMBER 2006

(CZK thousands)

Activities:	Main	Profit/loss	Total
A. Expenses			
I. Total consumed purchases	763		763
1. Material consumption	750		750
2. Energy consumption	13		13
II. Total services	5 482		5 482
5. Repairs and maintenance	117		117
6. Travel expenses	591		591
7. Entertainment expenses	105		105
8. Other services	4 669		4 669
III. Total personnel expenses	4 487		4 487
9. Wage and salary expenses	3 240		3 240
10. Statutory social security	1 131		1 131
11. Statutory social expenses	50		50
13. Other social expenses	66		66
IV. Total taxes and fees	48		48
14. Road tax	2		2
16. Other taxes and fees	46		46
V. Total other expenses	49 732		49 732
21. Foreign exchange losses	11		11
24. Other expenses	49 721		49 721
VI. Depreciation and sold assets	46 631 840		46 631 840
25. Depreciation of long-term intangible and tangible assets	264		264
27. Securities and investments sold	46 631 576		46 631 576
Total expenses	46 692 352		46 692 352
B. Revenues			
IV. Total other revenues	45 740		45 740
15. Interest	2 475		2 475
18. Other revenues	43 265		43 265
V. Revenues from sale of assets	46 778 819		46 778 819
20. Revenues from sale of securities and investments	46 622 012		46 622 012
22. Revenues from short-term financial assets	156 807		156 807
Total revenues	46 824 559		46 824 559
C. Pre-tax profit/loss	132 207		132 207
D. Profit/loss after tax	132 207		132 207

1 GENERAL INFORMATION

The Deposit Insurance Fund (hereinafter referred to as the "Fund") was entered in the Commercial Register on 29 December 1994 under Act No. 156/94 Coll. by which Act No. 21/1992 Coll. on Banks is being amended, and his seat is in Prague 1, Růžová 15. The subject matter of the Fund is providing compensation to owners of deposits that are legal entities and natural persons under the terms and conditions specified by the law. Pursuant to the provisions of Act No. 586 /1992 Coll. on Income Tax as amended the Fund's income is exempted from income tax.

The members of the board of administration as at 31 December 2006 were follows:

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

2 ACCOUNTING PROCEDURES

(a) Basic principles of preparing financial statements

The financial statements are compiled in accordance with the accounting regulations valid in the Czech Republic and the Czech accounting standards for non-profit organisations. The financial statements are compiled in historic prices apart from derivatives and securities which are reported in their real value. The amounts in the financial statements are rounded up to thousands of Czech crowns unless stated otherwise.

(b) Long-term tangible assets

Purchased long-term tangible assets are reported in acquisition prices which include the price for which the assets were acquired and the expenses related to their acquisition.

Depreciation of the long-term tangible assets was calculated by the method of equal depreciation based on their estimated service life and stemming from the tax rates.

Expenses of the repair and maintenance of long-term tangible assets is accounted directly to expenses.

Tangible assets with a service life of more than 1 year and an acquisition price exceeding CZK 40 000 per item are posted directly to expenses the moment their service life begins.

(c) Securities and investments

The Fund classifies securities and investments as tradable securities.

Tradable securities are securities which the Fund holds for the purpose of making transactions in order to achieve profit from price differences in the short-term to a maximum of one year.

Securities and investments are reported during purchase at their acquisition price including the transaction expenses. Tradable securities are valued by their real value. The Fund applies the market value of securities as of the balance date to calculate their real value. The valuation of securities not tradable on public markets is carried out based on an expert opinion or based on a qualified estimate made by the Fund management.

The collateralised receivables as part of repo and buy-sell transactions are reported under tradable bonds, debentures and similar securities including the interest accrued. Interest from these transactions is accrued for the duration of such a transaction.

Profit and loss arising from changes in real value of tradable securities is reported in the profit and loss account in which they arise.

(d) Financial derivatives

The financial derivatives, including current transactions, currency and interest swaps are firstly entered in the balance sheet in their acquisition price and subsequently re-valued to their real value. The real values are derived from market prices, from models of discount cash flow or models for option valuation. All derivatives are reported in the item of other receivables if they have a positive real value or in item other payables if their real value for the Fund is negative.

Changes in real value of tradable financial derivatives are reported in the profit and loss account.

(e) Foreign currency conversions

Transactions made in foreign currencies are converted and posted by the exchange rate valid on the transaction date. All monetary assets and liabilities in foreign currencies were converted by the exchange rate published by the Czech National Bank on the balance date. All foreign exchange gains and losses from the conversion of receivables and payables are entered in the profit and loss account.

The foreign exchange gains and losses of securities valued by their real value and managed in foreign currencies are considered part of the valuation of real value.

(f) Contributions received from banks

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

(g) Adjustments

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

(h) Payables to Bank Clients and Receivables from Banks who could not meet their commitments to their Clients

In accordance with the measure of the Finance Ministry of the Czech Republic and internal accounting regulation to the accounting of accepted contributions, disbursement of compensation and related cases are accounted by the Fund based on the decision of the Finance Ministry of the Czech Republic on commencement of disbursement, commitment to the bank clients for which compensation is disbursed against the reduction

of the amount of the managed account of funds included in equity financing. The receivable is posted at the same amount for the banks which cannot meet their commitments to their clients against the funds in equity financing.

(i) Subsequent Events

The impact of events that occurred between the balance date and the date of the drawing up of the financial statements is entered in the accounting statements in the event that these events provided additional information about the facts which existed as of the balance date.

In the event that between the balance date and date of drawing up the financial statements important events occurred taking into account facts which arose after the balance date, the consequences of these events are described in the appendix to the financial statements, but are not posted to the financial statements.

(i) Changes to Accounting Procedures

In 2006 there were no changes in the Fund's accounting procedures.

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

- (a)** Receivables to banks which did not meet their commitments to their clients as at 31 December 2006 amounted to CZK 19 001 791 thousand (as at 1 January 2006: CZK 19 136 646 thousand).

Adjustments were not created to these receivables based on the measure of the Finance Ministry of the Czech Republic (see item 2 (g)).

(b) The real value of securities held for trading:

(CZK thousands)

	31 December 2006	1 January 2006
Tradable bonds, debentures and similar securities	6 147 064	4 634 611
Tradable shares and similar securities	106 204	104 277
TOTAL	6 253 268	4 738 888

These securities can be divided according to their tradability as follows:

(CZK thousands)

	Tradability	31 December 2006	1 January 2006
Shares and similar securities – investment certificates	Foreign stock markets	106 204	104 277
Bonds, debentures and similar securities:			
- treasury bills	Short-term bond market	2 778 796	2 187 732
- CNB bills	Short-term bond market	799 633	100 003
- other bills	Foreign stock markets	64 932	0
- government bonds	Burza cenných papírů Praha (“BCPP”) (Prague Stock Exchange) main market	1 234 169	754 467
	Foreign stock markets	179 716	113 619
- other listed bonds	BCPP Main Market	0	270 135
	BCPP Secondary Market	81 970	0
	BCPP Official Open Market	92 603	0
	Foreign stock markets	915 245	1 196 054
- deposit bills of exchange	Non-tradable	0	12 601
TOTAL		6 253 268	4 738 888

(c) The Fund has no registered capital. The funds' account included in equity financing was covered using the following method:

(CZK thousands)

	31 December 2006	1 January 2006
Receivables for insolvent banks	9 645 691	9 645 691
Accepted contributions from banks (see item 2(f))	13 592 177	12 262 589
Depreciated receivables and payables	- 2 678 672	- 2 613 782
Unjustified compensation disbursements	271 643	182 100
Surplus from settled compensation disbursements for insured deposits	28 529	13 493
TOTAL	20 859 368	19 490 091

Summaries about changes to the funds' account:

(CZK thousands)

	Receivables for insolvent banks	Accepted contributions from banks	Depreciated receivables and payables	Unjustified compensation disbursements	Surplus from settled compensation disbursements for insured deposits	Total
Balance as at 1 January 2005	9 645 691	12 106 266	- 2 613 782	192 135	13 493	19 343 803
Accepted contributions and advances from banks (see item 2(e))	0	156 323	0	0	0	156 323
Compensation disbursement	0	0	0	- 196	0	- 196
Specification of compensation disbursement	0	0	0	- 1 090	0	- 1 090
Reduction of compensation disbursement	0	0	0	- 8 749	0	- 8 749
Balance as at 31 December 2005	9 645 691	12 262 589	- 2 613 782	182 100	13 493	19 490 091
Accepted contributions and advances from banks (see item 2(e))	0	1 329 588	0	0	0	1 329 588
Specification of compensation disbursement	0	0	0	89 543	0	89 543
Surplus from settlement of compensation disbursement	0	0	0	0	15 036	15 036
Depreciation of receivables	0	0	- 64 890	0	0	- 64 890
Balance as at 31 December 2006	9 645 691	13 592 177	- 2 678 672	271 643	28 529	20 859 368

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

The unjustifiably disbursed compensation was disbursed to clients of Moravia banka, a.s. in liquidation based on in complete materials which were passed onto the Fund by the trustee (administrator) in bankruptcy and is assessed as unjust enrichment and for this reason the Fund demands that these amounts be returned.

- (d) Payables from compensation disbursements were CZK 115 399 thousand (as at 1 January 2006: CZK 125 433 thousand) and are included in other payables.

The Fund has no payables after maturity to the state.

- (e) In view of the fact that advances for contributions from the banks for the calculation base of 2004 were received by the Fund based on a single joint decision of the bank as early as in 2004, contributions received from the banks in 2005 representing a definition of the advances. Contributions are accounted on the basis of their real acceptance and are not accrued (see item 2(f)).

(CZK thousands)

	2006	2005
Contributions received from banks for the preceding year	1 329 588	156 323
TOTAL	1 329 588	156 323

- (f) Summary of income, revenues and expenses of the current and preceding accounting period:

(CZK thousands)

	2006	2005
Earnings from the sale of securities	46 622 012	27 027 254
Revenues from short-term financial assets	156 807	162 849
Other revenues (see item 3 (g))	45 740	85 557
TOTAL	46 824 559	- 27 035 123
Securities sold	- 46 631 576	- 27 035 123
Depreciation of long-term intangible and tangible assets	- 264	- 232
Consumed purchases	- 763	- 469
Services	- 5 482	- 7 824
Other expenses	- 4 487	- 4 421
Taxes and fees	- 48	- 5 041
Other expenses (see item 3 (g))	- 49 732	- 53 244
TOTAL	- 46 692 352	- 27 106 354

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

(CZK thousands)

	2006	2005
Interest	2 475	1 884
Foreign exchange gains	1	151
Other revenues – change in the real value of tradable derivatives	33 355	36 993
Other revenues – change in the real value of tradable securities	9 625	10 957
Other revenues – change in accounting procedures as at 1 January 2005	0	35 563
Other	284	9
TOTAL OTHER REVENUES	45 740	85 557
Foreign exchange losses	- 11	- 30
Other expenses – change in the real value of tradable derivatives	- 17 269	- 29 999
Other expenses – change in the real value of tradable securities	- 26 752	- 16 031
Other expenses – change in accounting procedures as at 1 January 2005	0	- 5 633
Other	- 5 700	- 1 551
TOTAL OTHER EXPENSES	- 49 732	- 53 244

(h) Profit for 2005 at CZK 169 306 thousand was transferred to the retained earnings from previous years account. Profit for 2006 of CZK 132 207 thousand is proposed for transfer to the retained earnings from previous years account.

(i) The average number of Fund employees is five of which one is the managing employee. Total wage expenses were CZK 4 487 thousand (2005: CZK 4 421 thousand). In 2006 or 2005 no remuneration, advances or loans were provided to members of the board of administration. In 2006 and 2005 the Fund did not contribute to the life insurance of the executive director and did not provide him with any non-monetary consideration.

(j) No events took place after the balance date which could have had a significant impact on the financial statements as at 31 December 2006.

The financial statements were approved by the Fund's Board of Administration and were signed with its authorisation:

31 May 2007



Address:

Deposit Insurance Fund
Růžová 15, 110 00 Prague 1

www.fpv.cz