



FINANCIAL MARKET GUARANTEE SYSTEM

ANNUAL REPORT

of the Deposit Insurance
Fund for 2015



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I. INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



2015 marked twenty years since the Deposit Insurance Fund was established. Since its formation, it has experienced a great deal of turbulence, has gradually developed, has dealt with many issues and, most importantly, has conscientiously performed its main task, i.e. managing the contributions of the participating credit institutions and disbursing compensation for deposits. The two decades

of its existence have produced a reliable, efficient and safe component of what we call today the financial safety net.

Despite the fact that, as opposed to the previous four years, 2015 did not see the fall of any bank or cooperative credit union, this anniversary seems to be ushering in something new – 2015 will undoubtedly be a truly exceptional year, the start of a new era in terms of dealing with crises at credit institutions. The new rules based on the new European DGSD Directive will speed up the traditional system of compensation disbursements and will provide especially retail depositors with the possibility to enjoy broader protection for their funds. However, a new architecture is being simultaneously created based on the European BRRD Directive, comprised of recovery procedures and new tools and powers for crisis resolution. The key role will be played by the Czech National Bank as the national resolution authority. Nevertheless, the Deposit Insurance Fund will also play a role in the system – as an experienced and proven manager of funds for compensation disbursement it has been selected as the manager of the funds of the new Crisis Resolution Fund, which will in certain cases participate in the funding of the chosen procedure for resolving a crisis at a credit institution. That is why 2015 was characterised mainly by preparations for the transformation into a new internal structure. The intensity of action by all the parties involved in this process remained high for the entire year and culminated at year end by the last (legislative and practical) steps and, as the crowning moment, a change of name – with the arrival of the new year, the Deposit Insurance Fund became the Financial Market Guarantee System. However, the Deposit Insurance Fund was far from focusing only on the exceptionally difficult project of transformation into the Financial Market Guarantee System, which was implemented by managers and employees through their own efforts, with a minimal use of external services. The same level of priority was given to other projects and measures. It was necessary to expend considerable effort to perform all the steps required by the exceptionally demanding audits in the fields of IT, security and risk management. The Deposit Insurance Fund also performed two rounds of testing which confirmed the technical readiness of the Fund as well as of the participating credit institutions. Stringent demands for security and

a high level of flexibility and adaptability of the entire system to external influences (especially frequent legislation changes) required a high allocation of both human and material resources. It should be noted that at most times of the year the Deposit Insurance Fund employed only a very small staff. Nevertheless, the prevailing situation and the expectations of new tasks in the future resulted in the hiring of two additional specialists during the year.

The financial reserves of the Deposit Insurance Fund were not subjected to any special stress during the year, as the most important events took place in the previous period, when a large majority of compensation disbursements were made to clients of five cooperative credit unions.

On the contrary, the revenue side profited from income from terminated bankruptcies and liquidations, which exceeded CZK 5.2 billion, while CZK 4.4 billion was contributed to the Deposit Insurance Fund by banks and cooperative credit unions. The most valuable asset of the Deposit Insurance Fund is its employees, and last year placed extremely high demands on all of them. It is my great pleasure to thank our employees for their enormous efforts, individual contributions and professionalism in an environment with permanently increased pressure on time, and the quantity and quality of the work delivered. The demands for the operative management of the entire system had grown to such a level that throughout the year and, in particular, at the end of the year, it was necessary to rely very intensively on the assistance from the Board of Directors. With the same pleasure I would like to express my thanks and gratitude to all members of the Board of Directors for their flexible approach to the performance of tasks in this role, while working full time in their positions, whether at the Czech National Bank, at the Ministry of Finance of the Czech Republic or in the private sector.

Special thanks should be given to Mr. Josef Tauber, Chairman of the Board of Directors of the Deposit Insurance Fund, and to Ms. Renáta Kadlecová, Executive Director, who jointly orchestrated the successful preparation and launch of the entire transformation of the Deposit Insurance Fund into the new Financial Market Guarantee System, as well as to our colleagues Mr. Daniel Heler and Mr. Ladislav Šilha, whose term of office in the Board of Directors ended in 2015.

The Deposit Insurance Fund enters this new era not only with a new name – the Financial Market Guarantee System – but also with a new internal structure and a reshuffled Board of Directors, its supreme body. However, Mr. Josef Tauber, will continue to serve as one of its members, with his long experience laying the foundation stone of continuity for the future.

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

II. TRANSFORMATION OF THE DEPOSIT INSURANCE FUND INTO THE FINANCIAL MARKET GUARANTEE SYSTEM

On 1 January 2016, new laws¹ concerning deposit insurance and financial market crisis resolution mechanisms came into force, introducing significant changes into this field. One of the most important changes is the transformation of the legal entity called “Deposit Insurance Fund” into the Financial Market Guarantee System (hereinafter referred to as the “Guarantee System”).

This newly established institution assumes all the duties and functions of the former Deposit Insurance Fund, which will not cease to exist, but will become, as of 1 January 2016, an independent accounting unit without legal personality within the Guarantee System. The Guarantee System also administers the newly formed Crisis Resolution Fund. The goal of this transformation is to provide a more comprehensive system of depositor protection and to support the stability of the financial market.

The mission of the Guarantee System in the area of deposit insurance will basically remain unchanged compared to the situation existing until the end of 2015. In the event that the Czech National Bank makes an announcement on the inability of a bank, a building society or a co-operative credit union (hereinafter the “insured institutions”) to meet its obligations to beneficiaries under statutory and contractual conditions, or in the event that a court makes a decision on the bankruptcy (insolvency) of such an institution, the Guarantee System will disburse from the Deposit Insurance Fund compensation for receivables from deposits to individuals and legal entities that had deposits at such insured institution, including interest, up to an amount equivalent to

EUR 100,000. However, the new legislation has brought about several changes. These include, for example, exemptions from deposit insurance, time limits for the disbursement of compensation, the option to disburse compensation above the basic limit of EUR 100,000 under defined circumstances, the method of calculation of the contributions paid by the insured institutions to the Deposit Insurance Fund, etc. These changes are described in more detail in the fourth chapter, Legislation.

The newly established Crisis Resolution Fund which, like the Deposit Insurance Fund, is integrated into the Guarantee System as its accounting unit without legal personality, will serve for the investing of funds that may be used in the event it is not possible or appropriate to resolve the failure of an institution by its liquidation or insolvency, if this was contrary to public interest. The use of the financial resources of this fund is aimed at preserving financial stability, protecting insured deposits and continuing the institution’s core business, and at minimising the amount of potential state aid. Thus, this fund does not serve for direct disbursements of compensation for deposits. The use of crisis resolution tools will be decided on by the Czech National Bank. Contributions to this fund will be made by the financial institutions that already participate in the deposit insurance scheme (banks, cooperative credit unions and building societies), and now also by some investment firms. If any of these institutions run into difficulties, the obtained funding may then be used for e.g. providing a guarantee, a loan or additional capital, which may consequently prevent the institution’s bankruptcy.

¹ These include Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, and Act No. 375/2015 Coll., amending relevant legislation in relation to the enactment of the Financial Crisis Prevention and Resolution Act and in relation to the changes in the deposit insurance system. The adopted laws transpose the European Directive on Deposit Guarantee Schemes (2014/49/EU) and Directive 2014/59/EU, establishing a framework for the recovery and resolution of credit institutions and investment firms.

III. AUTHORISED REPRESENTATIVE

In 2015, the Deposit Insurance Fund was managed by a five-member Board of Directors appointed by the Minister of Finance of the Czech Republic. Pursuant to Section 41b (6) of the Act No. 21/1992 Coll., on Banks, which was in force until 31 December 2015, one Member of the Fund's Board of Directors was appointed from among employees of the Czech National Bank, on a proposal from the Czech National Bank (hereinafter referred to as the "CNB" or the "Czech National Bank"), and two Members of the Fund's Board of Directors were appointed from among members of the boards of directors of

banks. The other Members of the Fund's Board of Directors were employees of the Czech Banking Association and the Ministry of Finance of the Czech Republic. This Board of Directors was the authorised representative of the Deposit Insurance Fund and managed its activities.

The executive staff of the Deposit Insurance Fund was headed by the Executive Director.

The membership of the Board of Directors in 2015 remained the same as in the previous year.

Membership of the Board of Directors in 2015

Chairman:	Josef Tauber Advisor to the President of the Czech Banking Association
Vice-Chairman:	Karel Bauer Director of a Czech National Bank section
Members:	Daniel Heler Member of the Board of Directors of Česká spořitelna, a. s.
	Dušan Hradil Departmental Director at the Ministry of Finance of the Czech Republic
	Ladislav Šilha Deputy Director and Member of the Board of Directors of Modrá pyramida stavební spořitelna, a. s.

Executive Director: **Renáta Kadlecová**

Bodies of the Guarantee System

The supreme body of the newly formed Guarantee System is also a five-member Board of Directors appointed by the Minister of Finance of the Czech Republic. It is composed of two employees of the Czech National Bank, two employees of the Ministry of Finance of the Czech Republic and one representative 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.

Members of the Board of Directors of the Guarantee System

Chairman

Dušan Hradil

Term of office: until 2021

Departmental Director at the Ministry of Finance of the Czech Republic

Vice-Chairman

Karel Bauer

Term of office: until 2020

Director of a Czech National Bank section

Member

Radek Urban

Term of office: until 2021

Director of a Czech National Bank Department

Ondřej Landa

Term of office: until 2020

Deputy Head of the Legal Section at the Ministry of Finance of the Czech Republic

Josef Tauber

Term of office: until 2019

Advisor to the President of the Czech Banking Association

The Management Board is a new body which serves as the Guarantee System's authorised representative. The Management Board has three members, who are appointed by the Board of Directors and who are employed by the Guarantee System.

Members of the Management Board of the Guarantee System

Chairperson

Renáta Kadlecová

Executive Director

Member

Tomáš Hejduk

Chief Legal Manager

Roman Kahánek

Finance Manager

IV. LEGISLATION

In 2015, the activities of the Deposit Insurance Fund were governed by the provisions of Sections 41a to 41o of Act No. 21/1992 Coll., on Banks, as amended until 31 December 2015 (hereinafter also referred to as the “Act”). However, these provisions were amended by Act No. 375/2015 Coll., amending relevant legislation in relation to the enactment of the Financial Crisis Prevention and Resolution Act and in relation to the changes in the deposit insurance system. This Act came into force on 1 January 2016.

Pursuant to the Act in force until 31 December 2015, all banks, building societies and cooperative credit unions (insured institutions) were obliged to participate in a deposit insurance system and to contribute to the Deposit Insurance Fund within the scope stipulated by the Act. This obligation remains unchanged even after 1 January 2016.

Pursuant to Section 41c of the Act in force until 31 December 2015, the insurance covered all receivables from deposits denominated in a Czech or foreign currency, including interest, if the requirements for depositor identification pursuant to Section 41c (3) of the Act were 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. This scope of the insured instruments also remains the same in line with the new legislation.

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

Until the end of 2015, the insurance did not cover receivables from deposits made by banks, foreign banks, financial institutions, health insurance companies, and state funds. Receivables from deposits that a bank is entitled to partly include in its capital (subordinated debt) were not insured either.

These exemptions from coverage of receivables from deposits have been broadened by the new legislation. Besides the above exemptions, insurance of deposits now does not apply e.g. to deposits of the State or of territorial self-government units whose tax revenues according to the Act on Budget Allocation of Taxes are higher than an amount equivalent to EUR 500,000.

The deposit insurance system still does not cover bills of exchange and other securities. Until 31 December 2015, persons with a special relationship to the bank concerned were not entitled to compensation from the Deposit Insurance Fund for their receivables from deposits. However, this provision has been repealed and is not included in the new legislation. Conversely, the exemption from deposit insurance applicable to funds originating from criminal activity remains.

In line with the Act in force until 31 December 2015, the compensation for an insured deposit claim was provided from the Deposit Insurance Fund to the beneficiary after the Deposit Insurance Fund received written notification from the Czech National Bank that the bank concerned was not able to meet its commitments to beneficiaries under statutory and contractual conditions. The compensation was granted to individuals as well as legal entities, and was disbursed in the Czech currency. With effect from 1 January 2016, the compensation is paid in the currency of the country where the account concerned is situated.

Since 31 December 2010, in accordance with the Act, the limit on the maximum disbursement of compensation to a beneficiary has been EUR 100,000. The time limit for the commencement of disbursing compensation for deposits is 20 business days from the day when the Czech National Bank declares a bank to be insolvent, i.e. unable to meet its commitments to beneficiaries under statutory and contractual conditions. With effect from 1 June 2016, this period will be cut to 7 business days. Disbursements may be now started even on the basis of a court decision on bankruptcy (insolvency) or other decision for reasons directly related to the financial situation of the insured institution which results in the suspension of depositors’ right to use their deposits that are covered by insurance.

In line with Section 41c (6) and (7) of the Act and Section 14 of the Act on savings and credit cooperatives, the insured institutions made the following quarterly contributions to the Deposit Insurance Fund in 2015:

- ▶ Banks: 0.04% of the average volume of the insured receivables from deposits pertaining to the relevant calendar quarter, including interest.
- ▶ Cooperative credit unions: 0.08% of the average volume of the insured receivables from deposits pertaining to the relevant calendar quarter, including interest.
- ▶ Building societies: 0.02% of the average volume of the insured receivables from deposits pertaining to the relevant calendar quarter, including interest.



The average volume of the insured receivables from deposits was calculated by the banks and cooperative credit unions according to the amount of the insured receivables from deposits as of the last day of each calendar month in the relevant calendar quarter, including interest to which the depositor became entitled as of the same date.

The average volume of the insured receivables from deposits was calculated by building societies according to the amount of the insured receivables from deposits as of the last day of each calendar month in the relevant calendar quarter, including interest to which the depositor became entitled as of the same date, excluding advance payments of government support.

The calculation was made in the Czech currency. For receivables from deposits maintained in foreign currencies, the exchange rate used was the one announced by the Czech National Bank as of the date when the calculation was performed.

With effect from 1 January 2016, this lump-sum calculation method of contributions to the Deposit Insurance Fund has been replaced with a new calculation method which takes into consideration not only the volume of insured deposits, but also the level of risk assumed by the relevant insured institution.

At the same time, the basis for the calculation of contributions to the Deposit Insurance Fund has been changed, which means that these contributions are not calculated from the volume of insured deposits at the insured institution (regardless of the maximum coverage limit), but from the volume of covered deposits (i.e. deposits within the coverage limit, i.e. an amount equivalent to EUR 100,000).

Besides the change in the method of defining the amount of contributions, another important event for the insured institutions is a change in the frequency of payment of contributions.

Until 2015, these contributions were paid on a quarterly basis. Starting from 2016, they will be paid once a year by 30 June of the relevant year.

What is completely new among the changes brought about by the amended Act is the introduction of an option to pay out so-called "temporary high balances" above the basic coverage limit in certain 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. an amount equivalent to EUR 100,000 for a single beneficiary at a single bank) but will not exceed an amount equivalent to an additional EUR 100 000 for a single beneficiary at a single bank. As a precondition, the record date (i.e. the date when the Czech National Bank makes an announcement on the bank's inability to meet its obligations to beneficiaries under the statutory and contractual conditions, or the date when a court makes a decision on the bank's bankruptcy (insolvency)) must occur within a period of 3 months after the date when this amount is credited to the account.

Last but not least, the new legislation has also provided for cross-border disbursements of compensation for receivables from deposits. 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 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 will also apply in the opposite case.

V. DEPOSIT INSURANCE FUND ACTIVITIES IN 2015

Macroeconomic Developments in the Czech Republic in 2015, Macroeconomic and Regulatory Environment of the Insured Institutions

In 2015, the Czech Republic was the second-fastest growing economy in Europe, with gross domestic product expanding by 4.3% on a year-on-year basis. This highest performance of the economy since 2007 was driven by a combination of several growth-enhancing factors, especially the accelerated use of the financing available from European funds and low inflation driven by falling oil prices. The low inflation both supported consumer demand and extended the period of the weak koruna resulting from the CNB's interventions, which were positively contributing to the performance of the export-oriented Czech economy.

The positive economic developments and the related creation of new jobs were reflected in a decline of the unemployment rate by 1.3 percentage points to 4.5%², which was a seven-year low and – together with Germany – the lowest figure in the European Union.

At the end of 2015, total household indebtedness reached CZK 1.3 trillion, a year-on-year increase of 7.6%. Consumer loans saw a year-on-year increase of 9.1% to CZK 213.2 billion, whereas housing loans amounted to CZK 997 billion at the end of 2015, a year-on-year increase of 8%. The trend of growing household indebtedness was driven mainly by the improving economic situation, the environment of low interest rates and growing competition between credit institutions. Real household income in 2015 was up 3.5%, the fastest growth since 2007. Real household consumption per capita registered an even faster year-on-year growth of 4%³.

Household deposits were up CZK 111 billion (+5.8%) to CZK 2.034 trillion. At the end of last year, the average household's savings covered expenditure for 3.9 months, compared to 4.1 months as of 31 December 2014. The average household's income exceeded expenditure by 33%⁴ with a year-on-year increase of 4 percentage points.

The Czech Republic's state budget finished last year with a deficit of CZK 62.8 billion, which was a decrease of 19% in the deficit

compared to 2014. The final budget deficit for last year was CZK 37.2 billion lower than the approved deficit. This is the best result since 2008. Besides the recovery of the Czech economy, another positive factor was income from the EU of CZK 170.6 billion, an increase of CZK 48.5 billion compared to 2014.

The average annual rate of inflation for 2015 was 0.3%. The rate of inflation in the Czech Republic thus continued to remain deep below the 2% inflation target, what will probably not allow the Czech National Bank to terminate its commitment to prevent the Czech koruna from strengthening below CZK 27/EUR in the near future. This commitment will probably be terminated when the economic environment provides sufficient guarantees that the inflation rate will be kept within the CNB inflation target even after the intervention regime is ended.

Therefore, the koruna exchange rate was moving (with a few exceptions) above the CZK 27/EUR level last year; during the first half of the year, it was mostly above CZK 27.30/EUR⁵, while in the second half of the year it hit stronger levels within the range of CZK 26.97 to CZK 27.20/EUR. The koruna finished 2015 at CZK 27/EUR. As part of the currency interventions used as a direct tool of koruna exchange rate control during 2015, the CNB supplied the market with Czech korunas with a value equivalent to EUR 9 billion. For the entire duration of the intervention regime, this amount stands at EUR 16.5 billion. This is, in addition to the incoming EU funds, the reason why the central bank's foreign exchange reserves grew by EUR 14.4 billion to EUR 59.3 billion last year.

The intervention sales of the Czech koruna by the CNB significantly contributed to the liquidity of the interbank market and the required government bond yields slipped deeper into the red for shorter maturities, while government bonds with maturities of up to 5 years gradually moved into negative territory. In this situation, Czech banking institutions were limiting loss-making purchases of Czech government bonds and were depositing a substantial part of their excess free liquidity at the CNB at 0.05% p.a. Last year, banks' deposits at the central bank increased by CZK 250 billion and reached CZK 920 billion.

According to the preliminary data of the Czech National Bank for 2015, the Czech Republic's banking industry posted a net profit of CZK

² Unemployment rate under the ILO standard.

³ Data of the Czech National Bank and the Czech Statistical Office.

⁴ ING Bank Index úspor domácností (ING Bank Household Savings Index), ING Bank Potenciál spoření (ING Bank Savings Potential).

⁵ In the first quarter with a maximum of CZK 28.30/EUR as of 12 January 2015 and in the second quarter with a maximum of CZK 27.55 as of 2 April 2015

66 billion, which is an increase of 4.6%, compared to 2014. In the economic environment characterised by low interest rates, declining margins and growing competition, banks profited from the economic recovery and growing demand for housing loans, the main reason being the low mortgage rates and the growing supply of residential properties available for sale. Investment loans to corporate clients were also up. Another positive factor was improving quality of the loan portfolio and related decline in the cost of risk. However, banks registered an increase in operating costs, especially owing to higher regulatory requirements and investment in information technologies.

The satisfactory condition of the banking sector was documented by the results from the stress tests of the Czech National Bank on the basis of financial data as of 30 September 2015: "... despite the high resilience of the sector as a whole, three banks (representing around 2% of the sector's assets) would get into a situation of insufficient capital adequacy in the Baseline Scenario⁶, implying an adjustment of their business models or a need to top up capital by about CZK 0.6 billion (0.01% of GDP) in the future.

In the Adverse Scenario, the sector as a whole records a loss which substantially reduces its regulatory capital and its aggregate capital ratio falls below 12%. A total of nine banks (representing about 15% of the sector's assets) would get into a situation of failing to meet the minimum capital adequacy level (8%) in this scenario. To meet the regulatory minimum for all banks with registered offices in the Czech Republic, the banks would together have to increase their capital by around CZK 10 billion (roughly 0.2% of GDP⁷) as of the end of the test period⁸.

Cooperative credit unions posted a 2015 profit of CZK 41.4 million, which is an increase of CZK 23.1 million compared to 2014. The cost of risk was down CZK 137 million and reached CZK 238.4 million. However, the volume of loss-making receivables of the whole sector was up 21.4% and reached CZK 3.1 billion. The average share of classified receivables in the overall loan portfolio was 18.8% at the end of last year.

Of relatively significant importance for insured institutions from the cooperative credit unions sector was the enactment of Act No. 333/2014 Coll., amending Act No. 87/1995 Coll., on savings and credit cooperatives and Certain Related Measures and on an Amendment of the Czech National Council Act No. 586/1992 Coll., on Income Taxes, as amended.⁸ Of the significant changes brought

about by this Act, we can mention e.g. the introduction of the 10:1 ratio rule⁹, introduction of the CZK 5 billion limit for maximum asset size of the credit unions and CZK 30 million limit for maximum aggregate exposure to economically connected persons or related parties or setting the minimum membership contribution at CZK 1,000.¹⁰ The goal of these changes is to reinforce the original principles of the cooperative credit union business in the sector, to improve the risk profile of cooperative credit unions and the sector as a whole, and to limit the possibility of entering into financial transactions that in terms of their nature and value do not reflect the business model of cooperative banking.

The Czech National Bank responded to potential macro-prudential risks related to the increase in mortgages by making a recommendation for managing the credit risks of mortgage loans, recommending that the share of newly granted mortgages above 90% of the LTV¹¹ indicator should not exceed 10% of the total volume of the mortgages provided. Furthermore, no mortgage loan should have an LTV indicator over 100%. The CNB also responded to the high exposure of Czech banks to the Czech government in the form of investment in Czech government bonds¹²: the CNB will make estimates of the sovereign risk indicator measuring the risk of sovereign default. The current exposures will then be divided into two parts: up to the limit and above the limit. Banks will have to hold a sufficient capital reserve for the above-limit part.

The transposition of Directive 2014/49/EU¹³ into Czech law has led to a change in the method of calculation of the insured institutions' contributions to the Deposit Insurance Fund. As opposed to the previous practice, the amount of contributions for 2016 and subsequent years will be derived from the value of the covered deposits from deposits registered at the relevant credit institution, adjusted by the total risk weight reflecting the result of an assessment of the risk profile of the institution concerned. The risk profile of the financial institution concerned will also be taken into consideration when determining the institution's annual contribution to the Crisis Resolution Fund¹⁴.

⁶ According to the CNB's macroeconomic forecast of November 2015.

⁷ Stress Testing of the Czech Banking Sector, November 2015: http://www.cnb.cz/miranda2/export/sites/www.cnb.cz/cs/financi_stabilita/zatezove_testy/2015/zatezove_testy_vysledky_2015_3q.pdf

⁸ 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.

⁹ With effect from 1 July 2015, the volume of a single member's deposits that bear interest or carry a similar benefit must not exceed ten times the membership contribution. The sum of deposits of a single member exceeding this ten-fold limit must not bear interest or carry any other benefit. This measure applies to new deposits or to modified deposits.

¹⁰ These will come into force on 1 January 2018.

¹¹ Loan to value – the ratio between the value of the loan provided and the estimated value of the property.

¹² The share of Czech government bonds in the total assets of banks is around 15%, which is four times more than the EU average.

¹³ By an amendment to the Act on Banks and to the Act on savings and credit cooperatives No. 375/2015 Coll.

¹⁴ Act No. 374/2015 Coll., on financial crisis prevention and resolution.

Deposit Insurance Fund activities in 2015

In 2015, the Deposit Insurance Fund twice successfully verified the function of the compensation disbursement system by testing, in accordance with Czech Ministry of Finance Decree No. 71/2011 Coll., the client data of all banks, building societies and cooperative credit unions participating in the deposit insurance system. The first testing took place in March and April, the second took place in September and October.

In 2015 none of the insured institutions went bankrupt, and therefore the Deposit Insurance Fund only continued the previously commenced disbursements of compensation to the clients of Úvěrní družstvo PDW, Praha v likvidaci, Metropolitní spořitelni družstvo v likvidaci and WPB Capital, spořitelni družstvo v likvidaci. In 2015, upon expiry of the three-year statutory period, the Deposit Insurance Fund terminated the disbursements of compensation to the clients of UNIBON – spořitelni a úvěrní družstvo v likvidaci. The total amount of disbursed compensation for 2015 was CZK 234.68 million.

There were a number of additional changes in the field of IT and security in 2015. The 1st phase of a three-year cycle of regular internal IT audits was carried out by Risk Analysis Consultants, s. r. o. This phase was focused on data management, security management and physical security. Strong emphasis was placed on technical security. Subsequently, a detailed analysis of risks was performed and further infrastructure modifications were proposed. A new system for monitoring IT infrastructure was implemented. The Electronic Registry Service (Spisová služba) application successfully completed its first year of operation, and modifications were made according to users' requirements. An analysis was completed and specifications were defined for a public contract for the development of new software to replace the current POVYNAL information system. This new software will also be able to communicate with foreign deposit insurance schemes as regards the payout of compensation for client deposits in branches of foreign banks operating in the Czech Republic.

During 2015, the Deposit Insurance Fund awarded two public contracts, according to Section 12 (3) and Section 18 (5) of Act No. 137/2006 Coll., on Public Procurement, as amended. These were the following contracts:

- a small-scale public contract entitled "Monitoring the Security of the Information System of the Deposit Insurance Fund",
- a small-scale public contract entitled "Developing and Delivering Software to Support and Record Compensation for Receivables from Deposits", which was commenced at the end of 2015, and terminated in 2016.

Role of the Deposit Insurance Fund in 2015

The role of the Deposit Insurance Fund, assumed from 2016 by the Guarantee System, is to help stabilise the Czech banking market. The main goal is to protect the clients of banks and other insured financial institutions from losses they might incur, should such institutions be unable to repay their deposits. This reinforces confidence in the banking system, in particular during periods of economic turbulence, contributing to the general economic and financial balance. In 2015, the deposits of a single depositor at a single bank were fully insured up to an amount equivalent to EUR 100,000. With the new legislation this limit will remain unchanged and under some circumstances specified by law it is actually even higher (in case of the so-called "temporarily high balances", as referred to in Part IV. – Legislation).

As of 31 December 2015, deposits totalling CZK 3 trillion deposited at 33 financial institutions were insured with the Fund. These institutions in turn contributed CZK 4.4 billion to the Deposit Insurance Fund in 2015.

Compensation Disbursements

Pursuant to Section 41 a (5) of the Act, resources from the Deposit Insurance Fund may only be used for compensation for deposits to beneficiaries and for repayments of Deposit Insurance Fund debts. Since its establishment, the Deposit Insurance Fund has disbursed compensation for deposits twenty-one times, providing compensation to depositors of twelve banks and five cooperative credit unions, through seventeen regular and four additional disbursements totalling CZK 42.1 billion, as of 31 December 2015. During 2015, the Deposit Insurance Fund carried on with previously commenced disbursements of compensation for deposits. For 2015, the Deposit Insurance Fund disbursed compensation of CZK 0.1 million to clients of UNIBON – spořitelni a úvěrní družstvo v likvidaci, compensation of CZK 2.6 million to clients of Úvěrní družstvo PDW, Praha v likvidaci, compensation of CZK 20.9 million to clients of Metropolitní spořitelni družstvo v likvidaci, and compensation of CZK 211.1 million to clients of WPB Capital, spořitelni družstvo v likvidaci. Thus, the total compensation paid out by the Deposit Insurance Fund for 2015 reached CZK 234.7 million.

Table 1 Compensation Disbursed from the Deposit Insurance Fund to 31 December 2015
(in CZK mil.)

Insured institution	Number of 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, spořitelni a úvěrní družstvo	1,805.96	23/7/2012
Úvěrní družstvo PDW, Praha	17.60	11/3/2013
Metropolitní spořitelni družstvo	12,005.00	27/1/2014
WPB Capital, spořitelni družstvo	2,747.43	14/10/2014
TOTAL	42,105.41	

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

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

Since the establishment of the Deposit Insurance Fund in 1994, the limit on the 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

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

Deposit Insurance Fund Receivables against Insured Institutions

Pursuant to Section 41h (2) of the Act, starting from the disbursement commencement date the Deposit Insurance Fund 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.

The bankruptcy proceedings of Kreditní banka Plzeň, a. s. were completed in 2015. Of the twelve banks and five cooperative credit unions disbursed, bankruptcy proceedings have only been completed in six of them, and liquidation has only been completed in one case. Of the total amount of disbursed compensation for deposits, which reached CZK 42.1 billion as of 31 December 2015, CZK 40.1 billion of the Deposit Insurance Fund claims has 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 the Deposit Insurance Fund, when registering them, 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 Deposit Insurance Fund disbursed this additional compensation, was adopted after the expiry of the relevant deadlines. The Deposit Insurance Fund did not succeed with its request for the recognition of these claims in court proceedings.

The table below shows a summary of the Deposit Insurance Fund claims against the individual banks as registered as of 31 December 2015, for the bankruptcy proceedings and the liquidation process of the disbursed banks and cooperative credit unions. Of the total of CZK 37,650.3 million in registered claims, a preliminary distribution schedule has been drawn up for four banks and two cooperative credit unions and a final distribution schedule has been drawn up for two banks (however, the bankruptcy proceedings have not been completed yet), with a total received payment for the Deposit Insurance Fund of CZK 9,924.3 million. The Deposit Insurance Fund currently has CZK 27,726 million in claims against banks.

Table 3 Overview of Registered Receivables in Bankruptcy and Liquidation Proceedings as of 31 December 2015
(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
Česká banka, a. s.	regular	518.56		
	additional	443.11	20.73	940.94
AB banka, a. s.	regular	0.23	0.02	0.21
Velkomoravská banka, a. s.	regular	1,006.63	224,31	782,32
Universal banka, a. s.	regular	1,862.64	693.44	1,169.20
Moravia banka, a. s.	regular	4,753.70	950.74	3,802.95
Union banka, a. s.	regular	12,416.54	3,724.96	8,691.58
UNIBON, spořitelní a úvěrní družstvo	regular	1,806.58	247.78	1,558.80
Úvěrní družstvo PDW, Praha	regular	20.97		20.97
Metropolitní spořitelní družstvo	regular	12,021.44	4,062.34	7,959.13
WPB Capital, spořitelní družstvo	regular	2,799.88		2,799.88
Total		37,650.30	9,924.32	27,725.98

As concerns bankruptcy proceedings completed by the end of 2015, 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., and Kreditní banka Plzeň, 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 Deposit Insurance Fund has no more registered claims against these six banks and one cooperative credit union as of 31 December 2015. 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 2015

(in CZK mil.)

Insured institution	Type of disbursement	Total amount of claim in bankruptcy/ liquidation	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
Total		2,450.28	919.09	37.51

* 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

Contributions by Insured Institutions

In 2015, insured institutions paid quarterly contributions to the Deposit Insurance Fund, in accordance with the enacted Act No. 156/2010 Coll. Thus the overall contributions by insured institutions in 2015 included contributions for the 4th quarter of 2014 and contributions for the 1st to 3rd quarters of 2015, totalling CZK 4.2553 billion (this

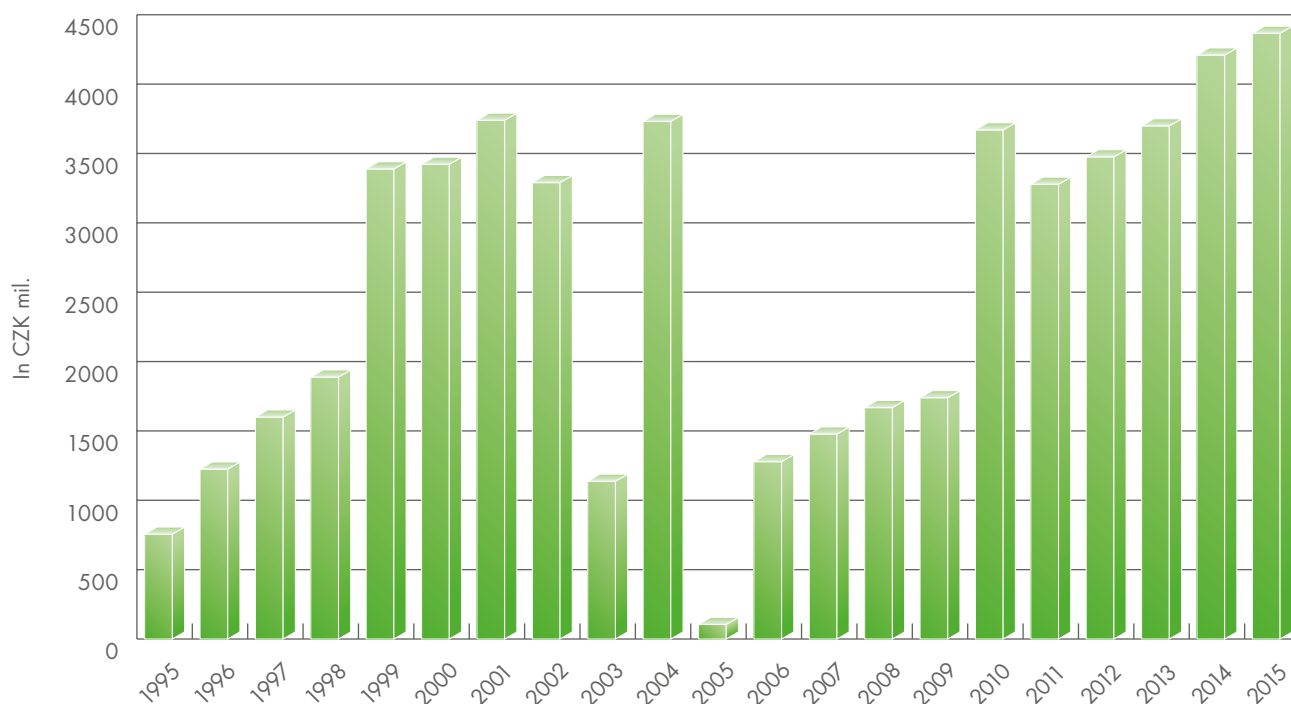
amount does not include an advance payment of CZK 200 million paid in 2014 for the 4th quarter of 2014). Based on a court decision, the Deposit Insurance Fund has also received the remaining balance of the contribution for the deposits previously registered at a ČSOB branch in Slovakia in an amount of CZK 162.2 million. The table below shows a summary of the contributions received by the Deposit Insurance Fund since its establishment in 1994.

Table 5 Contributions by Insured Institutions to the Fund, by Year of Payment

Contribution payment year	Amount in CZK mil.
1995	807.04
1996	1,275.93
1997	1,651.06
1998	1,939.37
1999	3,439.68
2000	3,472.68
2001	3,790.52
2002	3,341.04
2003	1,188.38
2004	3,782.24
2005*	156.32
2006	1,329.59
2007	1,528.63
2008	1,719.18
2009	1,790.58
2010**	3,721.03
2011	3,329.39
2012	3,526.62
2013	3,749.82
2014	4,260.52
2015***	4,417.47
Total	54,217.09

- Notes: * In 2004, an advance payment of a contribution due in 01/2005 was made
 ** 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

Graph 1 Contributions by Insured Institutions to the Deposit Insurance Fund, by Year of Payment



The method of calculation of the contributions of the insured institutions in 2015 is specified in Part IV – Legislation.

Graph 2 Number of Institutions Contributing to the Deposit Insurance Fund



International Cooperation

In 2015, the Deposit Insurance Fund was 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). Moreover, the Deposit Insurance Fund bilaterally cooperated with similar organisations, both in the EU and globally.

As part of the European Forum of Deposit Insurers, cooperation in 2015 between deposit insurance systems primarily focused on the transposition of the European regulation adopted in May 2014. Numerous working groups were established to deal with cross-border cooperation, the creation of a system of risk-based contributions, stress testing, cooperation between deposit insurance systems and crisis resolution systems, etc. The annual conference, held in September in Dubrovnik, focused on the activities of deposit insurance systems in the new regulatory environment.

The Deposit Insurance Fund representatives also participated, *inter alia*, in the meeting of the EFDI's EU Committee, the EFDI's working group for communication and public relations, the working subgroup for the Banking Union and subgroups preparing the implementation of agreements on mutual cooperation between deposit insurance schemes in the payout of compensation for deposits in branches of foreign banks, which operate under the EFDI's EU Committee.

The International Association of Deposit Insurers primarily focused its 2015 activities on discussions relating to a revision of the Core Principles for Effective Deposit Insurance Systems. The annual conference, held in Kuala Lumpur in October, focused on the methods of preventing financial crises.

Many more conferences and regional seminars took place during the year, primarily focusing on crisis management, the current challenges for deposit insurance systems, reinforcement of financial stability, the newly defined Core Principles for Effective Deposit Insurance Systems, etc.

As part of bilateral cooperation, Deposit Insurance Fund representatives visited the Slovak Deposit Protection Fund (Fond ochrany vkladov) to evaluate cooperation in compensation disbursement of the branch office of the UNIBON cooperative credit union in Slovakia, because the disbursement of this compensation ended on 23 July 2015. In Prague, the Deposit Insurance Fund welcomed officials from the Deposit Insurance Fund of Kosovo, with the main topic of the talks being the method of securing the data for compensation disbursement, testing the ability of banks to supply the Deposit Insurance Fund with data for compensation disbursement, and the actual methods and possibilities for making these disbursements.

Prague also saw another visit by the representatives of the Korea Deposit Insurance Corporation (KDIC), with the main topic of the talks being the communication policy of the Deposit Insurance Fund towards depositors and the role and position of the deposit insurance system in insolvency and bankruptcy proceedings.

Investment Activities

The investment policy of the Deposit Insurance Fund is based on core principles arising from the role of the Deposit Insurance Fund as defined in Act No. 21/1992 Coll., on Banks, as amended, and Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes. The financial means of the Deposit Insurance Fund may only be invested in a safe manner in accordance with legal requirements, the fund Statute and other internal regulations.

Through strategic (long-term) and tactical (short-term) allocation of assets, the investment policy determines the investment strategy of investing financial reserves both by external investment managers and by the Deposit Insurance Fund itself. The strategic asset allocation defines in particular credit exposure limits, market risk limits, the composition and parameters of a portfolio benchmark and the conditions of market risk hedging. The tactical asset allocation determines short-term deviations or the specification of investment limits and monitored parameters defined in the strategic asset allocation. The tactical asset allocation defines the setting of the risk position of a portfolio depending on the expected developments in financial markets, the meeting of investment policy goals and the parameters of the long-term investment strategy.

The total volume of Deposit Insurance Fund financial reserves at the end of 2015 reached CZK 28.773 billion. The financial reserves of the Deposit Insurance Fund are divided into three portfolios: the mark-to-market portfolio (MTM portfolio) managed by three investment managers; the held-to-maturity securities portfolio (HTM portfolio) managed by a single investment manager; and the short-term portfolio managed directly by the Deposit Insurance Fund.

The financial reserves managed in the mark-to-market portfolio were invested in treasury bills and government bonds issued by the Ministry of Finance of the Czech Republic. In 2015, the portfolio benchmark duration declined significantly to 0.8 years. At the end of 2015, the mark-to-market portfolio made up 30% of the total volume of the Deposit Insurance Fund financial reserves.

The HTM portfolio was reduced by CZK 466 million over the year, when funds from a bond that had matured were transferred to the short-term portfolio. This portfolio is primarily composed of medium-term

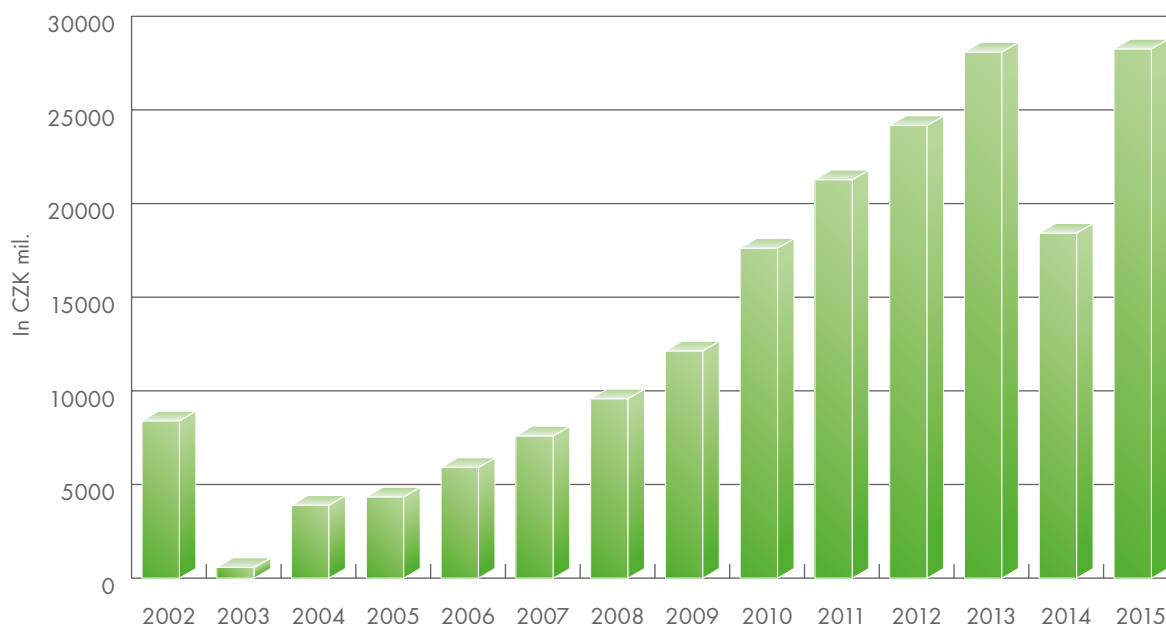
and long-term fixed-coupon bonds issued by the Ministry of Finance of the Czech Republic. The duration of the HTM portfolio was targeted at 4–5 years. At the end of 2015, the HTM portfolio made up 13% of the total volume of the Deposit Insurance Fund financial reserves.

The financial reserves managed directly by the Deposit Insurance Fund through its short-term portfolio were invested only in short-term repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or the Czech National Bank. At the end of 2015, the

short-term portfolio made up 57% of the total volume of the Deposit Insurance Fund financial reserves.

In 2015, the Deposit Insurance Fund generated its highest ever revenues of CZK 10.2 billion. Besides standard contributions from financial institutions of CZK 4.5 billion, the significant increase in revenues was driven mainly by higher income from bankruptcies (CZK 5.2 billion) and terminated litigations (CZK 241.5 million).

Graph 3 Trend in the Volume of Financial Reserves 2002–2015



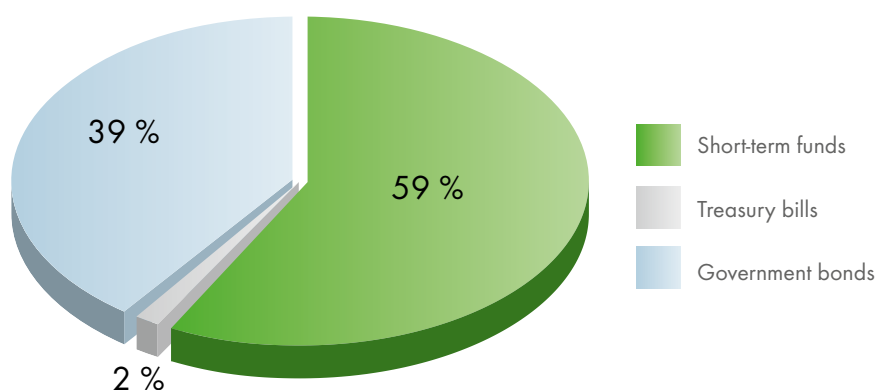
At the end of 2015, Deposit Insurance Fund financial reserves were composed of 59% short-term funds (deposits, buy/sell and repo operations with treasury bills issued by the Ministry of Finance of the Czech Republic or the Czech National Bank) and 41% domestic government bonds and treasury bills issued by the Ministry of Finance of the Czech Republic.

Table 6 Structure of Financial Reserves by Instrument, as of 31 December 2015

Type of instrument	Market value in CZK mil.
I. Current accounts, term deposits, buy/sell and repo operations, receivables*	17,043.50
II. Bonds:	11,729.48
of which: Treasury bills	634.94
Medium-term and long-term government bonds	11,094.54
III. Total	28,772.98

*receivables arising from financial transactions and unpaid coupons

Graph 4 Structure of Financial Reserves by Instrument, as of 31 December 2015

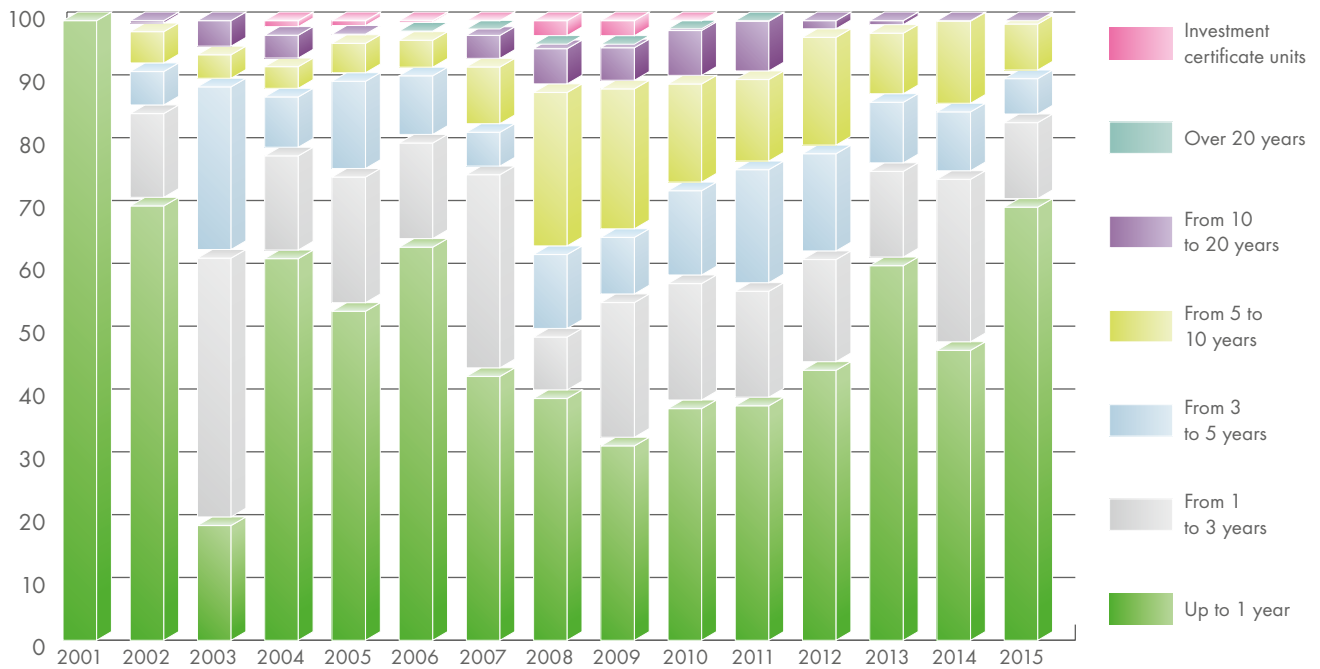


Debt instruments maturing within 1 year made up the largest share (70%) in the total volume of financial reserves, and the remaining portion of the portfolio is divided by maturity among instruments maturing in 1 to 3 years (13%), 3 to 5 years (7%), 5 to 10 years (9%) and 10 to 20 years (1%).

Table 7 Structure of Financial Reserves by Maturity, as of 31 December 2015

Instrument maturity	Market value in CZK mil.
I. Up to 1 year	20,231.53
II. From 1 to 3 years	3,872.88
III. From 3 to 5 years	2,016.94
IV. From 5 to 10 years	2,499.99
V. From 10 to 20 years	151.64
VI. Total	28,772.98

Graph 5 Development of the Financial Reserve Structure by Maturity



The total gross appreciation of Deposit Insurance Fund financial reserves for 2015 was 0.92% p.a., i.e. approximately CZK 213.0 million.

VI. MAIN CASH FLOWS OF THE DEPOSIT INSURANCE FUND – HISTORY

Table 8 Summary of the Deposit Insurance Fund Income and Expenditure, 1995–2015
(in CZK mil.)

I.	Income	74,472.20
	Contributions from banks, 1995–2015	54,217.26
	Income from judicial composition and bankruptcy proceedings	10,844.43
	Refunds of disbursed compensation	130.14
	Returned advance payments of non-disbursed compensation	61.41
	Interest received and other revenues	6,218.96
	– investment revenue	6,116.88
	– other financial revenue	102.08
	Loans received	3,000.00
II.	Expenditure	45,689.42
	Compensation for deposits disbursements, 1995–2015	42,265.47
	Operating costs	302.79
	Interest paid	121.16
	Loan repayments	3,000.00
III.	Difference between income and expenditure	28,782.78

No events took place after the balance sheet date which could have a material impact on the financial statements as of 31 December 2015. The Annual Report was approved by the Board of Directors of the Financial Market Guarantee System and signed on the basis of its authorisation:

19 April 2016



Dušan Hradil
Chairman of the Board of Directors



Karel Bauer
Vice-Chairman of the Board of Directors

VII. INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu):

We have audited the accompanying financial statements of Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu) which comprise the balance sheet as at 31 December 2015, and the income statement, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu) see Note 1 to the financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with accounting principles generally accepted in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



OPINION

In our opinion, the financial statements give a true and fair view of the financial position of Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu) as at 31 December 2015, and its financial performance for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Emphasis of Matter

We draw attention to the matter described in Note 2 to the financial statements, which states that Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu) prepares its financial statements and maintains its accounting records in accordance with Decree No. 504/2002 Coll., as amended, applicable to entities whose principal activity does not involve business.

Pursuant to the accounting legislation in this Decree, Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu) recognizes neither impairment allowances nor provisions. For the levels of provisions and allowances that Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu) would have recognized had it been allowed by the Decree, refer to Notes 3.1.

Fond pojištění vkladů (since 1. 1. 2016 Garanční systém finančního trhu) uses all these internal policies in the consistency with the prior years.

Our opinion is not qualified in respect of these matters.

Other Information

Other information comprises information included in the annual report other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information included and we do not express any form of assurance conclusion thereon. 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 obtained in the audit or otherwise appears to be materially misstated and whether the annual report has been prepared in accordance with applicable law or regulation. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Ernst & Young Audit, s.r.o.
License No. 401

Roman Hauptfleisch, Auditor
License No. 2009

29 June 2016
Prague, Czech Republic

FINANCIAL STATEMENTS

FINANCIAL MARKET GUARANTEE SYSTEM Accounting unit Deposit Insurance Fund

Financial Statements

For the year ended 31 December 2015



DEPOSIT INSURANCE FUND (FPV)	Registered office:	Týn 639/1; Prague 1
	Identification number:	49710362
	Date of financial statements:	31 December 2015
	Date of preparation of financial statements:	18/2/2016

Balance Sheet as of 31 December 2015

(CZK '000)

ASSETS	As of 1 January 2015	As of 31 December 2015
A. Total fixed assets	3,928,852	3,517,970
I. Intangible fixed assets – software	2,553	3,443
II. Tangible fixed assets	1,844	1,483
Works of art, objects and collections	46	46
Buildings	0	0
Machinery and equipment	1,798	1,437
III. Long-term investments – bonds, debentures and similar securities held to maturity	3,928,100	3,516,518
IV. Total accumulated depreciation and amortisation of fixed assets	-3,645	-3,474
Accumulated amortisation of software	-2,553	-2,566
Accumulated depreciation of buildings	0	0
Accumulated depreciation of machinery and equipment	-1,092	-908
B. Total current assets	48,685,750	52,997,701
II. Total receivables	39,237,102	27,995,200
Operating advances paid	165	16
Other receivables	39,236,937	27,995,184
III. Total current financial assets	9,448,542	25,002,314
Cash in hand	52	28
Stamps and vouchers	25	104
Bank accounts	255,250	16,789,221
Bonds, debentures and similar securities held for trading	9,193,215	8,212,961
IV. Total other assets	106	187
Prepaid expenses	106	187
Accrued income	0	0
Total assets	52,614,602	56,515,671

DEPOSIT INSURANCE FUND (FPV)

Financial Statements

Year ended 31 December 2015

(CZK '000)

LIABILITIES	As of 1 January 2015	As of 31 December 2015
A. Total equity	52,305,815	56,457,284
I. Equity – funds	49,252,117	53,147,748
II. Total profit/loss	3,053,698	3,309,536
Profit/loss account	239,446	255,838
Retained earnings	2,814,252	3,053,698
B. Total liabilities	308,787	58,387
III. Total current payables	308,787	58,387
Payables to suppliers	3,865	4
Other payables to employees	920	1,290
Payables to social security and public health insurance institutions	321	520
Other direct tax liabilities	247	365
Payables from fixed-term operations	0	0
Other payables	300,441	50,616
Estimated payables	2,993	5,592
Total equity and liabilities	52,614,602	56,515,671

DEPOSIT INSURANCE FUND (FPV)

Financial Statements

Year ended 31 December 2015

Profit and Loss Account for the year ended 31 December 2015
(CZK '000)

	Activity		
	Main	Economic	Total
A. Expenses			
I. Total consumed purchases	642	0	642
1. Consumption of material	642	0	642
II. Total services	12,842	0	12,842
5. Repairs and maintenance	20	0	20
6. Travel expenses	1,446	0	1,446
7. Representation expenses	131	0	131
8. Other services	11,245	0	11,245
III. Total personnel expenses	11,452	0	11,452
9. Wages and salaries	8,463	0	8,463
10. Statutory social security insurance	2,617	0	2,617
12. Statutory social expenses	281	0	281
13. Other social expenses	91	0	91
IV. Total taxes and fees	23	0	23
14. Road tax	2	0	2
16. Other taxes and fees	21	0	21
V. Total other expenses	48,514	0	48,514
21. Foreign exchange losses	9	0	9
24. Sundry other expenses	48,505	0	48,505
VI. Amortisation/depreciation and assets sold	1,505,566	0	1,505,566
25. Amortisation of intangible and depreciation of tangible fixed	390	0	390
27. Securities and interests sold	1,505,176	0	1,505,176
Total expenses	1,579,039	0	1,579,039

DEPOSIT INSURANCE FUND (FPV)

Financial Statements

Year ended 31 December 2015

(CZK '000)

	Activity		
	Main	Economic	Total
B. Revenues			
IV. Total other revenues	107,008	0	107,008
13. Contractual penalties and default interest	78,385	0	78,385
15. Interest	2,405	0	2,405
16. Foreign exchange gains	0	0	0
18. Sundry other revenues	26,218	0	26,218
V. Revenues from assets sold	1,727,869	0	1,727,869
20. Revenues from securities and interests sold	1,489,409	0	1,489,409
22. Revenues from current financial assets	103,529	0	103,529
24. Revenues from financial fixed assets	134,931	0	134,931
Total revenues	1,834,877	0	1,834,877
C. Profit/loss before tax	255,838	0	255,838
D. Profit/loss after tax	255,838	0	255,838

DEPOSIT INSURANCE FUND (FPV)

Financial Statements

Year ended 31 December 2015

1 General Information

The Deposit Insurance Fund was registered in the Commercial Register on 29 December 1994 under Act No. 156/1994 Coll., amending Act No. 21/1992 Coll., on Banks. With effect from 1 January 2016, according to Act No. 374/2015 Coll., on Financial Crisis Prevention and Resolution, the Deposit Insurance Fund was transformed into the Financial Market Guarantee System. Until its transformation into the Financial Market Guarantee System, the activity of the Deposit Insurance Fund was the provision of compensation to deposit owners, i.e. legal entities and natural persons, under the conditions laid down by law. Starting from 1 January 2016, this activity (along with additional activities) is provided by the Financial Market Guarantee System. The identification number of the Deposit Insurance Fund (until 31 December 2015) and newly of the Financial Market Guarantee System is 497 10 362. As provided in Act No. 586/1992 Coll., on Income Taxes, as amended, the income of the Deposit Insurance Fund (and of the new Financial Market Guarantee System) is exempt from income tax. The registered office of the Deposit Insurance Fund (now transformed into the Financial Market Guarantee System) is Prague 1, Týn 639/1.

The members of the Board of Directors as of 31 December 2015 were as follows:

Name	Position
Josef Tauber	Chairman
Karel Bauer	Vice-Chairman
Ladislav Šilha	Member
Daniel Heler	Member
Dušan Hradil	Member

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2 Accounting Policies

2.1 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 entities that are not primarily engaged in business activity. The financial statements are compiled at historical cost except for derivatives and securities that are recognised at fair value. The financial statements are compiled on the assumption that the entity 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.

2.2 Tangible fixed assets

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

The depreciation of fixed tangible assets was calculated using the straight-line depreciation method, based on the estimated useful life of the assets. The depreciation period for personal computers, servers, printers etc. is 3 years. The depreciation period for passenger cars is 5 years. The depreciation period for strongboxes is 10 years.

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

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

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

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

2.3 Securities and interests

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

Securities held for trading:

Securities held for trading are securities held by the Deposit Insurance Fund for the purpose of transactions aimed at generating profit from price differences in the short term, not exceeding one year.

When purchased, securities and interests are recognised at acquisition cost, including transaction expenses. Securities held for trading are measured at fair value. The Deposit Insurance Fund 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 Deposit Insurance Fund management.

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Interest income from securities held for trading includes accrued coupons, discounts and premiums on debt securities held for trading and is recognised as 'Revenue from current 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 Deposit Insurance Fund intends and is able to hold until their maturity. Should the Deposit Insurance Fund sell other than an insignificant amount of these assets, this entire category would be moved to the 'Securities held for trading' category.

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 held for trading and is recognised as 'Revenue from fixed assets'.

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.

2.4 Financial derivatives

Financial derivatives, including currency transactions, currency and interest rate swaps, are initially recognised in the balance sheet at acquisition cost and subsequently re-valued to their fair values. The fair values are derived from the market prices and from discounted cash flow models.

Derivatives with a positive fair value are recognised as 'Receivables from fixed-term operations'. Derivatives with a negative fair value are recognised as 'Payables from fixed-term operations'.

Changes in the fair value of financial derivatives held for trading are recognised in the profit and loss account, under 'Sundry other revenues' and 'Sundry other expenses'.

2.5 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.

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2.6 Contributions received from banks

Contributions received from banks are posted directly to the funds account included in the Deposit Insurance Fund's equity. These contributions are recognised on the basis of being actually received in the course of the current year and are not accrued, as they constitute a contribution for the current year. The preceding calendar quarter always constitutes the calculation base for the contribution amount.

2.7 Adjustments and reserves

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 entities 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 reserves in accordance with Section 40 (1) of the above-mentioned Decree.

2.8 Payables to bank clients and receivables due from banks that could not meet their commitments to clients

In accordance with a decree of the Ministry of Finance of the Czech Republic and an internal accounting regulation governing accepted contributions, compensation disbursements and related cases, the Deposit Insurance Fund, to commence disbursement, recognises payables to clients of the banks for which the compensation is being disbursed against the reduction in the amount of the above-mentioned 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.

2.9 Equity/Funds

Based on a decision of the Board of Directors, the result/profit for a current year is transferred to retained earnings or to the fund included in equity. The subsequent transfer of retained earnings to the fund is possible if the Board of Directors so decides.

2.10 Use of estimates

The preparation of the financial statements requires that the Deposit Insurance Fund 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 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.

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2.11 **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 the facts that existed as of the balance sheet date.

In the event that material events reflecting facts that occurred after the balance sheet date occurred between the balance sheet date and the date of preparation of the financial statements, 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 2015	As of 31 December 2014
Receivables from compensation disbursed	27,722,952	33,657,385
Receivables from repo operations	240,000	5,543,009
Receivables from duplicate payments	14,672	14,672
Receivables from coupons	14,282	17,510
Other receivables	234	223
Receivables from unpaid contributions	3,044	4,138
Other receivables – total	27,995,184	39,236,937

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 27,722,952,000 as of 31 December 2015 (2014: CZK 33,657,385,000, of which CZK 169,889,000 was a receivable based on funds provided to a financial institution in order to disburse compensation that has however not yet been disbursed).

The significant decline in the receivables from repo operations was due to the transfer of funds into deposits with the CNB.

No adjustments were created for these receivables based on a measure of the Ministry of Finance of the Czech Republic (see note 2.7).

If there were an option to create an adjustment, the Deposit Insurance Fund would create a 91% 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 2015	As of 31 December 2014
Debt securities held to maturity	3,516,518	3,928,100

Czech government bonds made up 100.0% of the value of securities held to maturity as of 31 December 2015 and 31 December 2014. The market value of the bonds reached CZK 4,235,810,000 as of 31 December 2015 (CZK 4,633,522,000 as of 31 December 2014).

3.3 Securities held for trading**Fair value of securities held for trading:**

(CZK '000)	As of 31 December 2015	As of 31 December 2014
Debt securities held for trading	8,212,961	9,193,215

Czech government bonds made up 92.0% of the value of securities held for trading as of 31 December 2015 (with treasury bills accounting for the rest).

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3.4 Statement of changes in the funds account

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

(CZK '000)	As of 31 December 2015	As of 31 December 2014
Deposit Insurance Fund:		
Opening balance	49,252,117	45,192,790
Contributions received (see note 3.6.)	4,417,474	4,260,523
New receivables due from banks in insolvency and liquidation	3,317	14,813,987
Written-off receivables and payables from compensation disbursements	-522,461	-205,966
Compensation disbursement	-3,317	-14,813,987
Additional payments and refunds from settlement, other receivables due from banks	618	4,770
Closing balance	53,147,748	49,252,117

In 2015, the Deposit Insurance Fund continued to disburse compensation for client deposits at Metropolitní spořitelní družstvo, Úvěrní družstvo PDW, Praha and WPB Capital. During 2015, New Receivables were increased by CZK 3,317,000 in total, constituting the additionally transferred claims for compensation disbursement by a trustee in bankruptcy (receiver) or a liquidator. During 2015, the bankruptcy proceedings of Kreditní banka Plzeň, a.s. were terminated and the Deposit Insurance Fund's unsatisfied claim of CZK 522,461,000 was written off (see Written-off Receivables and Payables from Compensation Disbursements).

3.5 Payables

Payables from compensation disbursements as of 31 December 2015 amounted to CZK 50,598,000 (2014: CZK 300,432,000). Payables from social security and health insurance as of 31 December 2015 amounted to CZK 520,000 (2014: CZK 321,000), of which CZK 276,000 (2014: CZK 150,000) is social security payables and CZK 244,000 (2014: CZK 171,000) is health insurance payables. None of these payables were overdue. Tax liabilities amounted to CZK 365,000 (2014: CZK 247,000). None of these payables were overdue.

3.6 Contributions from banks

The contributions are recognised on the basis of being actually received and are not recorded on an accruals basis (see note 2.6.).

(CZK '000)	2015	2014
Contributions received from banks	4,417,474	4,260,523

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

(CZK '000)	As of 31 December 2015	As of 31 December 2014
Revenues:		
Revenues from securities sold	1,489,409	1,282,571
Revenues from current financial assets	103,529	144,692
Revenues from financial fixed assets	134,931	140,261
Other revenues (see note 3.8)	107,008	53,029
Total	1,834,877	1,620,553
Expenses:		
Securities sold	-1,505,176	-1,285,073
Amortisation of intangible and depreciation of tangible fixed assets	-390	-156
Purchases consumed	-642	-491
Services	-12,842	-13,437
Personnel costs	-11,452	-9,427
Taxes and fees	-23	-23
Other expenses (see note 3.8)	-48,514	-72,500
Total	-1,579,039	-1,381,107

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3.8 Other revenues and other expenses

(CZK '000)	As of 31 December 2015	As of 31 December 2014
Revenues:		
Interest	2,405	1,884
Foreign exchange gains	0	0
Sundry operating revenues – foreign exchange gains from securities transactions and change in the fair value of derivatives held for trading	0	0
Sundry operating revenues – change in the fair value of securities held for trading	26,043	49,311
Other	175	1,834
Contractual penalties, default interest and fines	78,385	0
Total	107,008	53,029
Expenses:		
Foreign exchange losses	-9	-7
Sundry other expenses – foreign exchange losses from securities transactions and change in the fair value of derivatives held for trading	-552	-6,804
Sundry other expenses – change in the fair value of securities held for trading	-46,384	-63,397
Other	-1,569	-2,292
Total	-48,514	-72,500

Of the total interest income of CZK 2,405,000 (2014: CZK 1,884,000), the revenues from buy-sell operations amounted to CZK 2,212,000 (2014: CZK 1,766,000).

The 2014 profit of CZK 239,446,000 was transferred to retained earnings from previous years, based on a decision by the Board of Directors of 24 June 2015. The 2015 profit of CZK 255,838,000 is proposed for transfer to retained earnings from previous years.

According to a court ruling, default interest of CZK 78,380,000 was awarded to the Deposit Insurance Fund. The default interest for the late payment of contributions to the Deposit Insurance Fund was CZK 5,000.

The average number of Deposit Insurance Fund employees is eight, one of whom is a manager. Total wage costs in 2015 amounted to CZK 8,463,000 (2014: CZK 6,976,000).

The Deposit Insurance Fund did not provide any remuneration, advances or loans to members of the Board of Directors in 2015 or 2014. In 2015 and 2014 the Deposit Insurance Fund did not co-finance the Executive Director's life insurance and did not provide the Executive Director with any compensation in kind either.

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3.9 Litigations

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

Claimant TALIAATELLA HOLDINGS LIMITED (previously Conroe Consulting Services Limited)

On 18 December 2010, an action was filed against the Deposit Insurance Fund by Conroe Consulting Services Limited, with its registered office at 46/2, South Street, Valleta VLT 1101, Malta, **seeking the payment of CZK 1,561,731,947, including accessions. The action was filed with the District Court for Prague 1. The claimant is seeking the awarding of a claim consisting of damages in the above-mentioned amount that allegedly arose from the defendant, i.e. the Deposit Insurance Fund, failing to disburse, in accordance with Act No. 443/2006 Coll., as amended until 2 March 2007 (Act on Compensation) compensation for insured deposits to clients of Kreditní banka Plzeň, a.s. within the statutory period.** At the time, the Deposit Insurance Fund proceeded in line with the Act on Banks and failed to disburse the compensation because the Czech National Bank – in agreement with the Ministry of Finance of the Czech Republic – had extended the period for compensation disbursement. The relevant part of the above-mentioned Act on Compensation was subsequently repealed by a ruling of the Constitutional Court of the Czech Republic dated 15 February 2007, effective from 2 March 2007. On 2 May 2012, the District Court for Prague 1 rendered judgment with reference 18 C 364/2010-80 that the application for the payment of CZK 1,561,731,947, including accessions, was rejected and the claimant was obliged to reimburse the defendant for the costs of the proceedings. The claimant appealed against this judgment and subsequently supplemented its appeal. In addition, based on an agreement to assign the receivable, the original claimant, Conroe Consulting Services Limited, was replaced by TALIAATELLA HOLDINGS LIMITED. At the hearing held on 27 January 2014, the court of appeal rejected the claimant's appeal against the first-instance judgment, and awarded the costs of the proceedings in favour of the Deposit Insurance Fund. **The written version of the judgment was delivered on 25 April 2014. A clause on the legally binding status of the judgment was indicated on it as of 6 February 2015. On 20 August 2015, the District Court for Prague 1 issued a European Enforcement Order – the certificate confirming a judgement.**

The Deposit Insurance Fund's opinion is supported by the fact that in several litigations for damages where a depositor with Union banka a.s. – and in one case even a depositor with Kreditní banka Plzeň, a.s. – was the claimant, the courts deciding the cases confirmed the validity of the extension of the period for commencing the compensation disbursement. The courts always accepted as sufficiently established the fact that the Czech National Bank had extended the compensation disbursement period under the Act by additional three months. In the court's opinion, the Deposit Insurance Fund proceeded in accordance with the law, and no essential prerequisite for its liability for damage could be found. Furthermore, the claim is statute-barred, according to the court.

Claimant ASSETWISE LIMITED

On 30 August 2011, an action was filed with the Municipal Court in Prague against the Deposit Insurance Fund by ASSETWISE LIMITED, ID No.: HE 284286, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, P. C. 6042 Larnaca, the Republic of Cyprus, **seeking the payment of CZK 1,406,963,367, including accessions. The claim is based on the provisions of part two of Article III (4) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking financial compensation.** The High Court in Prague subsequently decided in terms of the material jurisdiction that district courts had jurisdiction to hear and decide the case at the first instance. The proceedings were suspended by court ruling of 9 December 2013 until the appeal proceedings in the case VALSPRING HOLDINGS LIMITED vs. the Deposit Insurance Fund (see below) were finally concluded. **A ruling by the Municipal Court in Prague, reference 97 Co 254/2014-126, dated 16 June 2014, revoked the ruling that had suspended the proceedings. Upon the claimant's proposal, the District Court for Prague 1 ordered the disputing parties to participate in person in the first meeting with the mediator. The first meeting with the mediator took place on 3 November 2015, but no out-of-court agreement was reached. The defendant notified this fact to the District Court for Prague 1 and suggested that the court should continue the proceedings, i.e. deal with the case at hand. A court hearing in the case was scheduled for 30 March 2016 at the District Court for Prague 1. On 30 March 2016, the District Court for Prague 1 decided that the action for the payment of CZK 1,406,963,367, including accessions, was rejected and that the claimant was obliged to reimburse the defendant for the costs of the proceedings. The written version of the judgment has not yet been delivered to the defendant.**

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In this case we have to state that these proceedings are based on the assessment of a legal issue / legal issues relating to the process of extending the period for disbursement commencement defined by the Act on Additional Compensation, and on the assessment of the claimant's right to bring proceedings. Another assessment criterion is the impact of constitutional law regulations on future legal relations after the above-mentioned law was repealed. The Deposit Insurance Fund's position is supported by the fact stated above that in several litigations the courts deciding the cases ruled that the process of extending the period for commencing the disbursement was de iure free of any defects, i.e. that the Deposit Insurance Fund had never delayed making its compensation disbursements. In addition, the rationale provided by the courts when deciding on other cases can lead to the opinion that the Act on Additional Compensation could never stand in the structure of existing legislation due to its evident legislative defects, which causes the Deposit Insurance Fund to believe that claims for performance cannot be made now on the basis of this repealed Act. The Deposit Insurance Fund has numerous legal arguments to support its opinion and consequently its potential success in this case. Moreover, as mentioned above, the claimant's cause of action was dismissed (the final decision on the dismissal is however still pending) by the District Court for Prague 1.

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

On 30 August 2011, an action was filed with the Municipal Court in Prague against the Deposit Insurance Fund by VALSPRING HOLDINGS LIMITED, ID No.: HE 235682, with its registered office at HADJIMATHEOU-YIANNOURI COURT, 2nd floor, Flat/Office 10, Post Code 6042, Larnaca, the Republic of Cyprus, **seeking the payment of CZK 1,621,470,327, including accessions. The claim is based on the provisions of part two of Article III (1) of Act No. 443/2006 Coll., the Act on Compensation, with the claimant seeking additional compensation. The defendant gave its statement on the application.** The claimant only gave its statement on the material jurisdiction of the court. The High Court in Prague subsequently decided in terms of the material jurisdiction that district courts had jurisdiction to hear and decide the case at the first instance. **By its judgment of 29 May 2013, the District Court for Prague 1 rejected the application in full and awarded the costs of the proceedings to the Deposit Insurance Fund. The claimant appealed this judgment, and the defendant gave its statement on the appeal. The hearing before the court of appeal was adjourned ad infinitum in order to change the entity of the claimant. A ruling by the Municipal Court in Prague, reference 53 Co 420/2013-262, dated 15 January 2015, allowed MERKURIO PANAMA S.A., with its registered office in the Republic of Panama, Panama, 50th Avenue, Global Bank Tower, 18th floor, Office 1801, to join the proceedings in lieu of the previous claimant. At a hearing held on 14 September 2015, the court of appeal upheld the first-instance judgement, and awarded the costs of the proceedings in favour of the Deposit Insurance Fund. By consulting the justice.cz information system, it was discovered that the claimant had filed an extraordinary appeal on 25 January 2016. On 16 February 2016, the District Court for Prague 1 sent to the defendant the claimant's extraordinary appeal of 25 January 2016 so that the defendant could comment on the claimant's extraordinary appeal. The defendant commented on the claimant's extraordinary appeal on 26 February 2016.**

In this dispute the claimant is trying to infer the duplicity of its claim from the perspective of interpreting the legislation that applies to claims for additional compensation disbursements as well as to constitutional law regulations. Although the claim is specified somewhat differently than in the previous case, which applies to claimant ASSETWISE LIMITED, the same comment as in the previous case can be made. In this case, again, the Deposit Insurance Fund lawyers have enough legal arguments to support the future success of the Deposit Insurance Fund in this litigation.

All of the three above-mentioned claimants acquired their receivables under agreements to assign a receivable from the assignor Česká pojišťovna, a.s., with its registered office in Prague 1, Spálená 75/16, post code 113 04, ID No.: 452 72 956 which, together with its subsidiary, ALPHA BROKER, a.s., had disbursed compensation to the clients of Kreditní banka Plzeň, a.s. v likvidaci beyond the scope of compensation disbursed by the Deposit Insurance Fund. The Deposit Insurance Fund does not account for reserves and does not believe that it is necessary to block funds for the purposes of the above-mentioned litigations.

In conclusion, it must be stated that the court decisions on the cases initiated by claimant **ASSETWISE LIMITED** and claimant **MERKURIO PANAMA S.A.** cannot be precisely foreseen.

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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 2015.

3.11 Future obligations of the Guarantee System

With the adoption of new legislation concerning deposit insurance and mechanisms for the resolution of financial market crises, new obligations will be now imposed on the Guarantee System. Besides taking over all the activities of the Deposit Insurance Fund, it will now also manage the Crisis Resolution Fund. This brings about new obligations: first the obligations related to the legal entity's transformation and then those related to the actual functioning of this institution.

One of the completely new obligations imposed on the Guarantee System by the amendment to Act No. 21/1992 Coll., on Banks, is e.g. the obligation to carry out, once every 3 years, a stress test of the system for the insurance of receivables from deposits.

As part of cross-border cooperation, it will be necessary to conclude cooperation agreements with foreign deposit insurance systems, an obligation imposed on the Guarantee System by Section 41 o of Act No. 21/1992 Coll., on Banks, as amended.

Also in 2016, the framework contract for organising the disbursements of compensation for deposits signed with Česká spořitelna a.s. and GE Money Bank, a.s. will expire. Thus, this year the Guarantee System will commence a new procurement procedure for the signing of a new framework contract.

Moreover, with effect from 1 June 2016, the commencement of disbursing compensation for deposits will be brought forward from 20 business days to 7 business days. This will mean increased demand for effective and rapid cooperation between all the parties involved.

The financial statements were approved by the Board of Directors of the Financial Market Guarantee System and signed on the basis of its authorisation:

19 April 2016

Dušan Hradil
Chairman of the Board of Directors

Karel Bauer
Vice-Chairman of the Board of Directors