



ANNUAL REPORT  
2005





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# I. INTRODUCTION BY THE PRESIDENT OF THE BOARD OF ADMINISTRATION

In an attempt to assess last year in the life and work of the Fund, the chief events that so persistently come to the fore are the endeavours by some groups of parliamentary deputies to enforce retroactive, full and extended compensation to anonymous deposits of the clients of some banks. I am not so much concerned at the moment about the criticism or praise of these initiatives. I would prefer to mention how the Fund had to respond to this changing — and unpredictable — situation, the challenges and their potential impact that it had to estimate, envisage or anticipate, and be able to know how to prepare for them.

The Deposit Insurance Fund operates, excuse me for this comparison, somewhere on the borderline of three areas, by its culture, working style and consideration of totally different spheres: in a very stringently regulated banking environment, in the sovereign position of legislator and in a difficult to define private legal environment in which, apart from the hundreds of thousands of depositors (incidentally the main target group as far as the Fund's mission is concerned), there are also administrators in bankruptcy, liquidators, traffickers, private businessmen, special purpose organisations of clients or groups of clients, etc. Then it is obvious that in this situation and environment the Fund must respond *foresightedly*, i.e. always and under all circumstances fulfil its role of paying out financial claims promptly to all authorised clients of bankrupt banks as the law stipulates.

This step was the decision of the Fund's managing bodies to secure the amount of funds by contract for a sufficiently long period with reliable and first-rate financial institutions. This came about with the establishment of a bond programme and the Fund has now secured sufficient funds for the scope of risks which may occur under "a real and conservative" estimate. Here it must be recalled that the market's very good acceptance of the Fund dates back several years when a syndicated transaction was successfully concluded with Czech financial institutions.

I also consider the Fund's further steps important or those its representatives took on the international scene. The President of the Board of Administration was re-elected by the general meeting of the International Association of Deposit Insurers to its executive committee and was also elected chairman of the Europe Regional Committee. The Fund's executive director became a regular member of the Training and Conference Committee and very actively participated in the work of the other IADI bodies.

It is pleasing to know that the work is intensifying of the European Forum of Deposit Insurers as well as our Fund's involvement. What is particularly significant for us in this respect is that there exist (two actually) representative and recognised platforms here for discussion and refinement of opinions on the position and work of deposit insurers who, with remarkable strength, promote our store of arguments in all important contexts. Moreover, the EFDI represents our direct contact with our European colleagues and the Brussels administration.

The Fund's Board of Administration has made several major personnel changes. I take this opportunity to sincerely thank all the departed members of the Board of Administration for their work and for their exemplary and firm attitude to the benefit of the Fund. I look forward to working with all the newly appointed members and wish them joy and satisfaction in the work they perform for the Fund. I would particularly like to praise and thank Pavel Trnka for his many years of devoted work for the Fund after his decision to end his job as executive director.



**Ing. Josef Tauber**

President of the Board of Administration

## II. STATUTORY BODY

The Deposit Insurance Fund is managed by a five-member Board of Administration. The President, Vice-president and other members of the Board of Administration (hereinafter referred to as the "Fund") are appointed and removed from office by the Finance Minister. Pursuant to Section § 41b (5) of the Act on Banks, at least one members of the Fund's Board of Administration, is appointed from among the ranks of employees of the Czech National Bank at the recommendation of the Czech National Bank, and at least two members of the Fund's Board of Administration are appointed from among the ranks of members of the boards of directors of banks. The term of office of individual members of the Board of Administration is five years, and one new

member is appointed each year. There is no remuneration for the tenure of a member of the Board of Administration. The Fund's Board of Administration is the statutory body of the Fund and manages its activities. The Board of Administration appoints an executive director who is the head of the Fund's entire executive staff.

As of 15<sup>th</sup> June 2005, the Finance Minister removed Karel Bidlo from office and appointed Pavel Štěpánek new member of the Board of Administration. As of 4<sup>th</sup> November 2005 Pavel Štěpánek resigned as member of the Board of Administration.

### Member Structure of the Board of Administration in 2005

<b>President:</b>	<b>Josef Tauber</b> - Director General and Second Vice-president of the Board of Directors of Česká exportní banka, a.s.
<b>Vice-president:</b>	<b>Karel Bidlo</b> - Department Director of the Ministry of Finance of the Czech Republic until 15 <sup>th</sup> June 2005
<b>Members:</b>	<b>Daniel Heller</b> - Deputy Director General and Member of the Board of Directors of Česká spořitelna, a.s. <b>Václav Křivohlávek</b> - Department Director of the Ministry of Finance of the Czech Republic <b>Petr Vojtíšek</b> - Deputy Department Director of a Section of the Czech National Bank <b>Pavel Štěpánek</b> - Deputy Executive Director of the Czech Banking Association from 15 <sup>th</sup> June 2005 to 4 <sup>th</sup> November 2005

Further changes in the Board of Administration came about at the start of 2006. As of 3<sup>rd</sup> February 2006, the Finance Minister removed Václav Křivohlávek from the office of member of the Board of Administration and on the same day appointed Petr Vojtíšek Vice-president of the Board of Administration. Likewise, the Finance Minister appointed two new members of the Board of Administration as at 3<sup>rd</sup> February 2006, these being Klára Cetlová and Petr Kielar.

<b>Executive Director:</b>	<b>Pavel Trnka</b> (to 31 <sup>st</sup> March 2006) <b>Renáta Čechová</b> (from 1 <sup>st</sup> April 2006)
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# III. ACTIVITIES OF THE DEPOSIT INSURANCE FUND IN 2005

## Role of the Deposit Insurance Fund

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

### The Fund's further activities include the following:

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

## Act on Banks

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

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

Pursuant to Section 41c of the Act on Banks, the insurance applies to all receivables from deposits in Czech or foreign currency, including interest when the requirements for identifying depositors are met in accordance with Section 41c (3) of the Act on Banks, which are registered as a credit balance on accounts or in savings books, or which are endorsed through a deposit certificate, deposit note or other similar document. Natural persons are identified by name, surname, address and date of birth or birth certificate number of the depositor, or an identification

number, and in the case of legal entities by their business name or name of the legal entity, its registered office, in the case of domestic legal entities also by their identification number. Insurance does not apply to receivables from bank deposits, financial institutions, health insurance companies and state funds. Receivables from deposits that a bank is entitled to partially include in its capital (subordinated debt) are not insured either. The system of insuring receivables from deposits does not apply to bills of exchange and other securities.

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

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

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

## Disbursement of Compensation

Pursuant to Section 41a (5) of the Act on Banks, the Fund may only withdraw funds from the Fund for the compensation of receivables from deposits to authorised persons and for repayment of the Fund's debts. In the course of its existence, the Fund has disbursed compensation for deposits in sixteen cases as at 31<sup>st</sup> December 2005, granted in the form of twelve regular and four additional payments as compensation to depositors of twelve banks to a total amount of CZK 25.511 billion.

In 2005 the Fund continued to disburse regular compensation to depositors of Union banka, a.s. and Plzeňská banka, a.s., as well as disburse additional compensation to depositors of Pragobanka, a.s., Universal banka, a.s. and Moravia Banka, a.s. A summary of disbursed regular and additional compensation for 2005 was the sum of CZK 28.33 million.

Total compensation for deposits disbursed as at 31<sup>st</sup> December 2005 decreased in comparison with the same period of 2004 for during the course of 2005 a further sum was returned to the Fund's account of additional compensation from deposits unjustifiably disbursed to depositors of Moravia banka, a.s. of CZK 55.52 million. The reason why the Fund made this unjustifiable disbursement was that the Fund received incorrect data from the trustee (administrator) in bankruptcy for the disbursement of additional compensation from deposits in 565 cases. After discovering this fact, the Fund asked these 428 clients, who unjustifiably collected this compensation to return it. The total sum of this returned compensation for the past two years is CZK 74.08 million. The total sum of compensation from deposits thereby decreased by the sums that these persons returned voluntarily after being called upon to do so by the Fund based on a court decision, court settlement or out-of-court agreement.

### Disbursement of Compensation from the Deposit Insurance Fund by 31<sup>st</sup> Dec. 2005

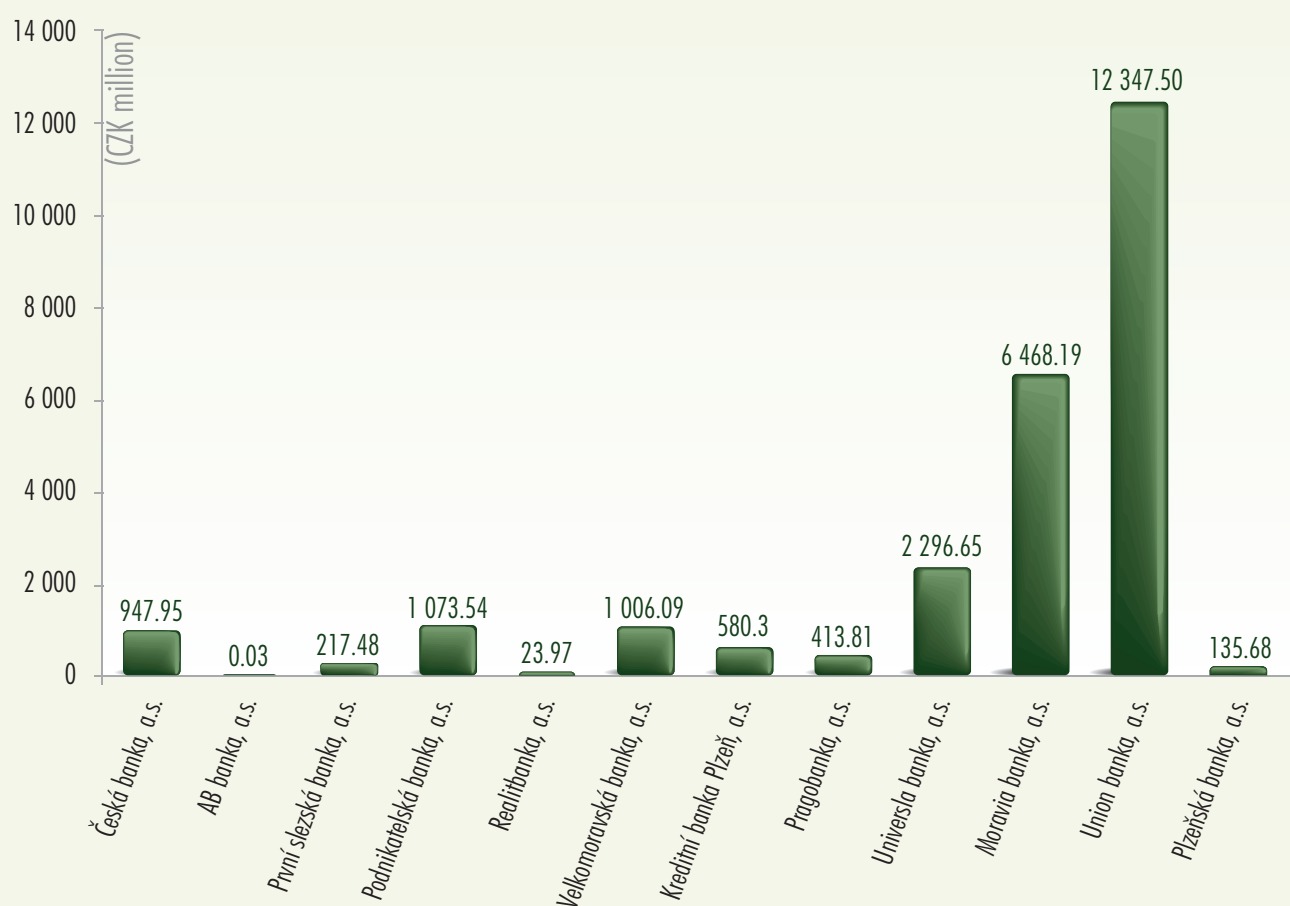
(CZK million)

Bank	Date of commencement of Compensation disbursement	Disbursed compensation By 31 <sup>st</sup> December 2005
Česká banka, a.s. <sup>1</sup>	11.12.1995	947.95
AB banka, a.s.	31.1.1996	0.03
První slezská banka, a.s.	15.5.1996	217.48
Podnikatelská banka, a.s.	17.6.1996	1 073.54
Realitbanka, a.s.	24.7.1996	23.97
Velkomoravská banka, a.s.	29.7.1996	1 006.09
Kreditní banka Plzeň, a.s.	23.9.1996	580.3
Pragobanka, a.s. <sup>2</sup>	1.12.1998	413.81
Universal banka, a.s. <sup>2</sup>	17.5.1999	2 296.65
Moravia banka, a.s. <sup>2</sup>	11.10.1999	6 468.19
Union banka, a.s.	17.5.2003	12 347.50
Plzeňská banka, a.s.	7.6.2003	135.68
<b>TOTAL</b>		<b>25 511.20</b>

<sup>1</sup> disbursement of additional compensation commenced on 8<sup>th</sup> June 1998

<sup>2</sup> disbursement of additional compensation commenced on 4<sup>th</sup> January 2002

## Disbursement of Compensation from the Deposit Insurance Fund by 31<sup>st</sup> December 2005





## Receivables of the Fund from Banks

Pursuant to Section 41h (2) of the Act on Banks, the Fund shall become the creditor, as of the disbursement commencement date, of a bank which has failed to meet its commitments under legal contractual terms and conditions to the scope of the rights of the bank's authorised persons to be paid by the Fund. The table below shows a summary of the Fund's receivables for individual banks registered as of 31<sup>st</sup> December 2005 for the purpose of bankruptcy proceedings of disbursed banks.

### Summary of Receivables Registered for Bankruptcy Proceedings

as of 31<sup>st</sup> December 2005

(CZK million)

Bank	Type of Disbursement	Registration for Bankruptcy	Returned to the Fund	Receivables in Bankruptcy
Česká banka, a.s.	Regular	518.56		
	Additional	443.11		961.67
AB banka, a.s.	Regular	0.23	0.01	0.22
První slezská banka, a.s.	Regular	217.50	7.61	209.89
Realitbanka, a.s.	Regular	24.20		24.20
Velkomoravská banka, a.s.	Regular	1 006.63		1 006.63
Kreditní banka Plzeň, a.s.	Regular	580.95	29.05	551.91
Universal banka, a.s.	Regular	1 862.64	302.29	1 560.35
Moravia banka, a.s.	Regular	4 753.70		4 753.70
Union banka, a.s.	Regular	12 416.54	2 483.31	9 933.23
Plzeňská banka, a.s.	Regular	134.85		134.85
<b>TOTAL</b>		<b>21 958.92</b>	<b>2 822.27</b>	<b>19 136.65</b>

In 2005 the Fund did not receive any income from judicial composition or bankruptcy proceedings.

In the case of Podnikatelská banka, a.s., the Fund does not register any receivables whatsoever in view of the fact that judicial composition has already taken place from which the Fund received the amount of CZK 548.52 million for disbursed compensation, which is 51.09 % of the disbursed compensation. The final allocation was also executed in the case of Pragobanka, a.s., where the Fund received CZK 184.33 million for disbursed compensation, which is 53.57 % of disbursed compensation. Bankruptcy proceedings are still underway in the case of the other banks.

A preliminary allocation was also executed in the case of První slezská banka a .s., where the Fund received an advance payment of CZK 7.61 million, in the case of AB Banka, a.s. it was CZK 0.01 million of the advance received, of Kreditní banka Plzeň, a.s. an advance of CZK 29.05 million, of Univerzá banka, a.s. an advance of CZK 302.29 million and of Union banka, a.s. in the case of which the Fund received an advance of CZK 2 483, 31 million.

## Contributions from Banks

In 2004 the Fund received a contribution of CZK 2 642,05 million from banks and building societies for the 2004 basis of calculation. By December 2004, the Fund had received a contribution advance of CZK 2 485,73 million of this amount.

The table below shows a summary of contributions paid by banks to the Fund since its establishment in 1994.

### Contributions from Banks to the Fund By Year

(CZK million)

Basis of calculation (year)	Year of compensation disbursement	Amount
1994	1995	807.04
1995	1996	1 275.93
1996	1997	1 651.06
1997	1998	1 939.37
1998	1999	3 439.68
1999	2000	3 472.68
2000	2001	3 790.52
2001	2002	3 341.04
2002	2003	1 188.38
2003	2004	1 296.74
2004	2005*	2 642.05
<b>TOTAL</b>		<b>24 844.48</b>

\* including advances in December 2004

## Contributions from Banks to the Fund By Year



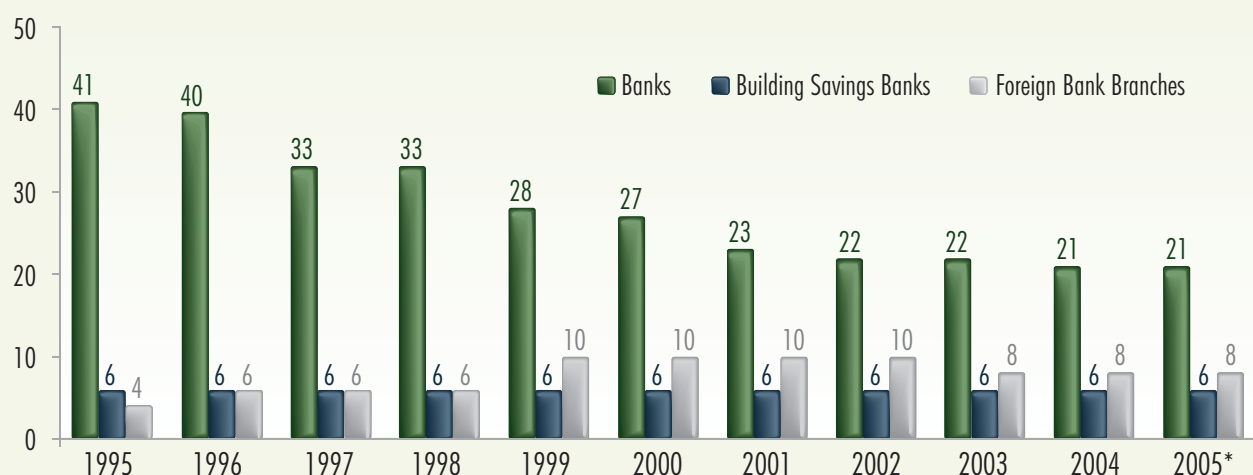
\* including advances in December 2004

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

In view of the fact that in 2003 the Fund accepted a medium-term syndicated loan used to secure sufficient funds for disbursement of compensation to depositors of Union banka, a.s., the contributions from banks and building societies for 2004 were increased to twice the percentage rate pursuant to the provisions of Section 41k of the Act on Banks. The medium-term syndicated loan was repaid as of 31<sup>st</sup> December 2004, the amount of contributions paid by banks and building societies in 2005 was decreased to the original rate set forth in Section 41c (6) and (7) of the Act on Banks.

Due to the Czech Republic's accession to the European Union in 2004, all branches of foreign banks operating in the Czech Republic terminated their participation in the system of insuring receivables from deposits, with the exception of HSBC Bank, plc - Prague Branch.

## Number of Institutions Contributing to the Fund



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

## Investment Activities

At the start of 2005 the Fund renewed its cooperation with the second investment manager which had been interrupted in 2003 in connection with the increased need of funds for the disbursement of compensation for deposits. In 2005 investment managers were administering about 60% of the Fund's financial reserves. The volume of financial reserves administered directly by the Fund was maintained in the course of 2005 at a higher level than expected by the Fund's investment strategy with respect to the discussed bill on the disbursement of additional compensation for deposits of three banks. The Fund considered it crucial to maintain a higher volume of liquid financial reserves.

The funds administered by investment managers were invested in medium and long-term government bonds, bonds issued by banks, municipalities or corporations in Czech crowns, and partly also in bonds issued in foreign currency (EUR, PLN, SKK or USD) while maintaining the minimum level of the rating valuation of bond issuers set at the S&P A- level. The funds administered directly by the Fund (about 40%), were invested only in short-term government bonds or bonds issued by the Czech National Bank for the purpose of maintaining the liquidity of the Fund.

As of 31<sup>st</sup> December 2005 the Fund's financial reserves totalled CZK 4 850.1 million. So in comparison with 2004 they recorded an overall increase of CZK 440,9 million (these do not include balances of accounts in KB, ČSOB and GE Money bank for the disbursement of compensation

for deposits). The reason for the relatively low increment of financial reserves in 2005 was the payment of advances to bank contributions to the Fund for 2004 already made in December of that year totalling CZK 2 485.7 million.

Revenues from the investment of funds in 2005 came to CZK 162.3 million (gross revenue), of this CZK 123.6 million from investment through investment managers. Remunerations were paid to investment managers of CZK 4.2 million, i.e. 3.40% of the gross revenues achieved by the investment managers.

As of 31<sup>st</sup> December 2005, 95.32% of the portfolio was allocated in bonds, 2.42% in current accounts or short-term term deposits and 2.15% in shares funds. The value of closed swap transactions was 0.11% of the portfolio. A significant increase occurred in the structure of the portfolio particularly in the short-term government bond sector (+16.1%), of bank and corporate bonds (+11.2%) and bonds issued by EIB and EU member countries (+5.2%). A more significant fall occurred in the medium and long-term government bond sector (-29.1%). Changes in the structure occurred due to the increase in the volume of funds administered by the investment managers and due to a change in the expectations of development in interest rates in 2005. These expectations were also reflected in the decrease in the duration of the portfolio administered by the investment managers from 3.33 years as of 31<sup>st</sup> December 2004 to 1.9 years as of 31<sup>st</sup> December 2005.

## Structure of the Portfolio by Instrument as of 31<sup>st</sup> December 2005

(CZK million)

	Type of instrument	Market value*
I.	Current accounts and term deposits	117.25
II.	Bonds:	4 623.02
	<i>Of these: Treasury bills</i>	2 288.74
	<i>Medium-term and long-term government bonds</i>	754.47
	<i>Bank and corporate bonds</i>	1 349.08
	<i>IBRD, EIB and EU state member government bonds</i>	175.99
	<i>Mortgage debenture bonds</i>	54.74
III.	Bond Fund shares	104.28
IV.	Swaps	5.56
<b>TOTAL</b>		<b>4 850.10</b>

## Structure of the Portfolio by Maturity as of 31<sup>st</sup> December 2005

(CZK million)

	Maturity of instrument	Market value*
I.	Up to 1 year	2 606.31
II.	From 1 to 3 years	1 036.09
III.	From 3 to 5 years	739.36
IV.	From 5 to 10 years	292.83
V.	Over 10 years	71.22
VI.	Share certificates	104.28
<b>TOTAL</b>		<b>4 850,10</b>

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

At the end of 2005 the Fund's portfolio held bonds issued in four currencies. The greatest share consisted of Czech crown instruments of 95.02%, instruments issued in EUR was 2.63%, in PLN it was 1.9% and in SKK it was 0.45% of the portfolio.

## International Cooperation

The most important aspect of developing its contacts with similar institutions abroad, is that the Fund is a member of two international organisations, i.e. the International Association of Deposit Insurers (IADI) and the European Forum of Deposit Insurers (EFDI).

In September 2005 **the International Association of Deposit Insurers** organised its fourth annual General Meeting in Taipei (Taiwan) followed by an international conference on the theme of the "Role of Deposit Insurance Systems In Resolving Bank Failures." The presentations focused on current problems facing deposit insurance systems, crisis planning, building an effective deposit insurance system connected with resolving the failure of international banks and the support of international cooperation. IADI Manuals being prepared were also presented at the conference, these being the "Manual on Support of Effective Mutual Relations" and the "Manual on Resolving Bank Failure". The annual General Meeting approved the annual report, financial statements and auditor's report for the fiscal year of 2004/2005 and a change to the fiscal year which shall commence in 2006 on 1<sup>st</sup> April and end on 31<sup>st</sup> March. The General Meeting also agreed to decrease the number of members of the executive committee from 23 to 21, elected five new members of the executive committee and re-elected J.P. Sabourin IADI President. The President of the Fund's Board of Administration was re-elected member of the executive committee for a period of 3 years. These proceedings were preceded by the 12<sup>th</sup> session of the IADI executive committee, during which the session was also held of the permanent and regional IADI committees. It was at the first session of the European Regional Committee that the President of the Fund's Board of Administration was elected chairman of this committee.

Further work meetings of the IADI executive committee were held in April and June 2005 in Basel, Switzerland.

In May 2005 an international conference on the theme "Early Warning Systems as the Main Condition for Bank Solvency and Financial Stability" was held in Alma-Ata, Kazakhstan, organised by the Kazakhstan Deposit Insurance Fund in cooperation with IADI, EBRD, SECO and USAID. The conference focused on the role of deposit insurance systems as part of the financial safety net, its tasks and powers, risk management and method of resolving bank crisis situations.

**The European Forum of Deposit Insurers** was very active in 2005 in deepening cooperation between deposit insurance systems within Europe.

In April 2005 a seminar was held in Berlin dealing with the problems of bilateral agreements concluded among the national deposit insurance systems of EU member countries. In September a further professional seminar was held in Stockholm on the theme of "Financing Deposit Guarantees".

The election took place at the end of June of the new EFDI Vice-president, who became Dirk Cupei, a representative of the Association of German Private Banks.

The third EFDI session was held in October 2005 in Warsaw. Attention was focused on discussing the problems of the future legal structure of EFDI and regulation of the Statutes. This session was preceded by a professional seminar on the occasion of the tenth anniversary of the establishment of the Polish Bank Guarantee Fund.

The theme of the last seminar, which was held in December 2005 in Sarajevo, was "Deposit Insurance in Developing Countries. Has it Really Strengthened the Banking System?" A representative of the Fund presented a paper at this seminar devoted to the issue of moral hazard.

In January 2005 the first meeting was held in Brussels at the **European Commission** of the work group of the Banking Advisory Committee on deposit insurance systems for the purpose of preparing a more extensive review of Directive No. 94/19/EC on Deposit Insurance Systems. According to the European Commission, the review will focus not only on the issue of the minimum level of insurance, but also on any possible modification to the definition of insured deposits, supplementary insurance, financing, division of responsibility between the domestic and host country, the relationship between central banks and the deposit insurance systems.

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

### Summary of Income and Expenditure of the Fund during 1995 - 2005

(CZK million)

INCOME	
Contributions from banks 1995 - 2005	24 844.47
Income from judicial composition and bankruptcy proceedings	3 556.14
Return of disbursed compensation	55.52
Interest and other revenue	2 209.55
— <i>interest from investment</i>	2 209.26
— <i>other financial revenue</i>	0.29
Accepted loans	3 000.00
<b>INCOME TOTAL</b>	<b>33 665.68</b>

(CZK million)

EXPENDITURE	
Reimbursement of premiums 1995 - 2005	25 580.74
Operations expenses	105.61
Loan interest	121.16
Loan repayment	3 000.00
<b>EXPENDITURE TOTAL</b>	<b>28 807.52</b>

(CZK million)

DIFFERENCE BETWEEN INCOME AND EXPENDITURE	
	4 858.16

# V. PROFIT AND LOSS ACCOUNT AS AT 31<sup>ST</sup> DECEMBER 2005

(CZK thousand)

Interest	1 884
Foreign exchange gains	151
Other revenues	83 522
Revenues from sale of long-term intangible and tangible assets	0
Revenues from sale of securities and investments	27 027 254
Revenues from short-term financial assets	162 849
<b>Total account class 6</b>	<b>27 275 660</b>
Material consumption	377
Energy consumption	92
Repairs and maintenance	293
Travel expenses	602
Entertainment and promotion expenses	67
Other services	6 862
Wage and salary costs	3 180
Statutory social security insurance	1 113
Statutory social security expenses	70
Other social security expenses	58
Road tax	10
Other taxes and fees	5 041
Interest	0
Other fines and penalties	5
Foreign exchange losses	30
Other expenses	53 209
Depreciation of long-term intangible and tangible fixed assets	232
Net book value of sold long-term intangible and tangible fixed assets	0
Securities and investments sold	27 035 123
<b>Total account class 5</b>	<b>27 106 354</b>
<b>PROFIT/LOSS AFTER TAX</b>	<b>169 306</b>



## VI. BALANCE SHEET AS OF 31<sup>ST</sup> DECEMBER 2005

(CZK thousand)

ASSETS	
<b>1. Fixed assets</b>	<b>311</b>
<i>Of which</i>	
1.1. intangible fixed assets	0
1.2. land	0
1.3. real estate	0
1.4. movables	1 124
1.5. accumulated depreciation	-813
1.6. financial investments	0
<b>2. Current assets</b>	<b>24 027 258</b>
<i>Of which</i>	
2.1. inventory	0
2.2. receivables - advance payments for operating inventory	132
2.3. receivables - employees	12
2.4. other receivables	19 152 720
2.5. receivables from state budget, taxes	0
2.6. bank accounts, stamps, cash	135 470
2.7. shares	104 277
2.8. debt securities	4 634 610
2.9. temporary accounts of assets	36
<b>TOTAL ASSETS</b>	<b>24 027 568</b>

(CZK thousand)

LIABILITIES	
<b>1. Equity financing</b>	<b>23 898 975</b>
<i>Of which</i>	
1.1. funds	19 490 091
1.2. gains and losses from revaluation of assets	0
1.3. retained earnings from previous years	4 239 578
1.4. profit/loss 2005	169 306
<b>2. External financing</b>	<b>128 593</b>
<i>Of which</i>	
2.1. legal reserves (provisions)	0
2.2. long-term liabilities	0
2.3. short-term liabilities	128 593
2.4. borrowings and bank loans	0
2.5. estimated accrued expenses	0
<b>TOTAL LIABILITIES</b>	<b>24 027 568</b>

# VII. AUDITOR'S REPORT



PricewaterhouseCoopers Audit, s.r.o.  
Kateřinská 40/466  
120 00 Prague 2  
Czech Republic  
Telephone +420 251 151 111  
Fax +420 251 156 111

## INDEPENDENT AUDITORS' REPORT

### BOARD OF ADMINISTRATION OF THE DEPOSIT INSURANCE FUND

We conducted an audit of the enclosed balance sheet of the Deposit Insurance Fund (hereinafter referred to as the "Fund") at 31<sup>st</sup> December 2005, relating to the profit and loss account and appendix for 2005 (hereinafter referred to as the "Financial Statements"). The board of trustees of the Fund is responsible for the drawing up of the Financial Statements, which include a description of the Fund's activities and the bookkeeping. Our task is to issue a report to the audit for these Financial Statements.

We conducted the audit in accordance with the Auditors' Act, the International Audit Standards and the related application clauses of the Czech Republic's Chamber of Auditors. These norms require that the audit be planned and executed in such a manner so that the auditor gains reasonable certainty that the Financial Statements do not contain major irregularities. The audit includes a randomly executed verification of the conclusiveness of the amounts and information stated in the Financial Statements. The audit also includes an assessment of the accounting procedures used and the major estimates made by the Fund's board of administration, and an assessment of the entire presentation of the Financial Statements. We are convinced that the conducted audit provides a reasonable basis for the issue of this report.

In our opinion, the Financial Statements present, in all major aspects, a faithful and true picture of the assets, liabilities and equity of the Fund at 31<sup>st</sup> December 2005 and its economic results for 2005 in accordance with the Accounting Act and other relevant legal regulation of the Czech Republic.

31<sup>st</sup> May 2006

PricewaterhouseCoopers Audit, s.r.o.  
Represented by

Ing. Petr Kříž  
Partner and Auditor, certificate no. 1140

PricewaterhouseCoopers Audit, s.r.o., registered office in Kateřinská 40/466, 120 00 Prague 2, ID: 40765521, entered in the Commercial Register kept at the Municipal Court in Prague, Section C, File 3637 and in the list of auditing companies of the Chamber of Auditors of the Czech Republic under certificate no. 021.

# APPENDIX TO THE FINANCIAL STATEMENTS FOR 2005

## BALANCE SHEET TO 31<sup>ST</sup> DECEMBER 2005

(CZK thousand)

ASSETS	Balance as of 1 <sup>st</sup> January 2005	Balance as of 31 <sup>st</sup> December 2005
<b>A. Total long-term assets</b>	<b>487</b>	<b>310</b>
<b>II. Total long-term tangible assets</b>	<b>1 068</b>	<b>1 124</b>
4. Machinery, equipment, vehicles, furniture and fixtures	1 068	1 124
<b>IV. Total adjustments to long-term assets:</b>	<b>- 581</b>	<b>- 814</b>
7. Adjustments to machinery, equipment, vehicles, furniture and fixtures	- 581	- 814
<b>B. Total short-term assets</b>	<b>23 767 806</b>	<b>24 027 258</b>
<b>II. Total receivables</b>	<b>19 217 426</b>	<b>19 152 864</b>
4. Advance operating payments	130	132
6. Employee receivables	12	12
17. Other receivables	19 217 284	19 152 720
<b>III. Total short-term financial assets</b>	<b>4 550 358</b>	<b>4 874 358</b>
1. Petty cash	34	27
3. Bank accounts	1 499 623	135 443
4. Tradable shares and similar securities	102 139	104 277
5. Tradable bonds, debentures and similar securities	2 948 562	4 634 611
<b>IV. Total other assets</b>	<b>22</b>	<b>36</b>
1. Deferred expenses	22	36
<b>TOTAL ASSETS</b>	<b>23 768 293</b>	<b>24 027 568</b>

(CZK thousand)

LIABILITIES	Balance as of 1 <sup>st</sup> January 2005	Balance as of 31 <sup>st</sup> December 2005
<b>A. Total own resources</b>	<b>23 613 311</b>	<b>23 898 975</b>
<b>I. Total equity</b>	<b>19 373 733</b>	<b>19 490 091</b>
2. Funds	19 343 803	19 490 091
3. Gains and losses from revaluation of assets and payables	29 930	0
<b>II. Total profit/loss</b>	<b>4 239 578</b>	<b>4 408 884</b>
1. Profit/loss account	x	169 306
2. Profit/loss in approval proceedings	- 5 316	x
3. Retained earnings from previous years	4 244 894	4 239 578
<b>B. Total liabilities</b>	<b>154 982</b>	<b>128 593</b>
<b>III. Total short-term payables</b>	<b>154 982</b>	<b>128 593</b>
1. Suppliers	0	8
5. Employees	143	152
6. Other payables to employees	1	0
7. Payables to social security and public health insurance institutions	98	105
9. Other direct taxes	37	41
17. Other payables	152 675	125 753
22. Estimated accrued expenses	2 028	2 534
<b>TOTAL LIABILITIES</b>	<b>23 768 293</b>	<b>24 027 568</b>

## PROFIT AND LOSS ACCOUNT FOR YEAR ENDING 31<sup>ST</sup> DECEMBER 2005

(CZK thousand)

Activities:	Main	Economic	Total
<b>A. Expenses</b>			
<b>I. Total consumed purchases</b>	<b>469</b>		<b>469</b>
1. Consumed material	377		377
2. Utility expenses	92		92
<b>II. Total services</b>	<b>7 824</b>		<b>7 824</b>
5. Repairs and maintenance	293		293
6. Travelling expenses	602		602
7. Entertainment expenses	67		67
8. Other services	6 862		6 862
<b>III. Total personnel expenses</b>	<b>4 421</b>		<b>4 421</b>
9. Wages and salaries	3 180		3 180
10. Legal social security	1 113		1 113
11. Legal social expenses	70		70
13. Other social expenses	58		58
<b>IV. Total taxes and charges</b>	<b>5 041</b>		<b>5 041</b>
16. Other taxes and charges	5 041		5 041
<b>V. Total other expenses</b>	<b>53 244</b>		<b>53 244</b>
18. Other fines and penalties	5		5
21. Foreign currency exchange losses	30		30
24. Other remaining expenses	53 209		53 209
<b>VI. Depreciation of and sold assets</b>	<b>27 035 355</b>		<b>27 035 355</b>
25. Depreciation of long-term and intangible and tangible assets	232		232
27. Sold securities and shares	27 035 123		27 035 123
<b>Total expenses</b>	<b>27 106 354</b>		<b>27 106 354</b>
<b>B. Revenues</b>			
<b>IV. Total other revenues</b>	<b>85 557</b>		<b>85 557</b>
15. Interest	1 884		1 884
16. Foreign currency exchange gains	151		151
18. Other remaining revenues	83 522		83 522
<b>V. Revenues from sold assets</b>	<b>27 190 103</b>		<b>27 190 103</b>
20. Revenues from the sale of securities and shares	27 027 254		27 027 254
22. Revenues from short-term financial assets	162 849		162 849
<b>Total revenues</b>	<b>27 275 660</b>		<b>27 275 660</b>
<b>C. Pre-tax profit/loss</b>	<b>169 306</b>		<b>169 306</b>
<b>D. Profit/loss after tax</b>	<b>169 306</b>		<b>169 306</b>

## 1 GENERAL INFORMATION

- (a) The Deposit Insurance Fund (hereinafter referred to as the "Fund") was entered in the Commercial Register on 29<sup>th</sup> December 1994 in accordance with Act No. 156/94 Coll., which amends and supplements Act No. 21/1992 Coll., on Banks, and its seat is in Prague 1, Růžová 15. The scope of activity of the Fund is to provide compensation to owners of deposits who are legal entities and natural persons under the conditions as laid down by the law. Under the provisions of Act No. 586 /1992 Coll. on Income Tax as amended, the income of the Fund is exempt from income tax.
- (b) The members of the Board of Administration as of 31<sup>st</sup> December 2005 were as follows:

	<u>Offices:</u>
Josef Tauber	president
Václav Křivohlávek	member
Petr Vojtíšek	member
Daniel Heler	member

The office of Václav Křivohlávek expired on 3<sup>rd</sup> February 2006. In 2005 the vice-president of the Board of Administration was Karel Bidlo and his office expired on 15<sup>th</sup> June 2005 and the member of the Board of Administration Pavel Štěpánek was appointed on 15<sup>th</sup> June 2005 and his office expired on 4<sup>th</sup> November 2005.

## 2 ACCOUNTING PROCEDURES

### (a) The basic principles for drawing up the financial statements

The financial statements are drawn up in accordance with the accounting regulations valid in the Czech Republic and the Czech Accounting Standards for non-profit organisation. The financial statements are drawn up in historic prices apart from the derivatives and securities, which are entered in real value. The sums in the financial statements and in the appendix are rounded up to thousands of Czech crowns, unless stated otherwise.

### (b) Long-term tangible assets

The purchased long-term tangible assets are entered in acquisition prices which include the price for which the assets were acquired and the costs relating to their acquisition.

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

Repair and maintenance expenses of long-term tangible assets are accounted directly into expenses.

Tangible assets whose service-life is longer than 1 year and the acquisition price does not exceed CZK 40 000 per item, are accounted directly to expenses the moment they start to be used.

### (c) Securities and shares

The Fund classifies securities and shares as tradable securities.

Tradable securities are securities which the Fund holds for the purpose of carrying out transactions to achieve profit from price differences in the short-term, but no more than annually.

The securities and shares are entered during purchase in the acquisition price including transaction expenses. The tradable securities are valued using real value. The Fund uses as real value the market value of securities at the date of the financial statements. The valuation of securities not tradable on public markets is carried out based on an expert opinion or on a qualified estimate carried out by the Fund's management.

Gains and losses arising from changes to real value of tradable securities are entered in the profit and loss account in the period in which they will occur (see also point 2(i)).

### (d) Financial derivatives

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

Changes to the real value of tradable financial derivatives are entered in the profit and loss account (see also point 2(i)).

**(e) Conversion of foreign currencies**

Transactions carried out in foreign currencies are converted and posted in the foreign exchange rate valid on the date of the transaction. All monetary assets and liabilities kept in foreign currencies were converted by the foreign currency exchange published by the Czech National Bank at the balance date. All foreign currency exchange gains and losses are entered in the profit and loss account.

Securities that are valued by their real value and are kept in foreign currencies have their foreign currency gains or losses considered as part of the valuation of real value.

**(f) Contributions received from banks**

Contributions received from banks are entered on the funds' account included in the Fund's own resources. These contributions are entered on the basis of their real receipt at the start of the current year. They are not accrued because this concerns a contribution for the current year. The calculation base for the amount of the contribution is the previous calendar year.

**(g) Adjustments**

The Fund does not create adjustments for receivables or does not account them in accordance with Section 37 (1) of Decree No. 504/2002 Coll. of the Czech Republic's Finance Ministry which implements some provisions of the Accounting Act No. 563/1991 Coll.

**(h) Payables to clients and bank receivables which could not honour their payables to clients**

In accordance with the measure of the Czech Republic's Finance Ministry and an internal accounting regulation for accounting received contributions, payment of compensation and related cases are accounted by the Fund, based on the decision of the Czech Republic's Finance Ministry on the commencement of payment, payables to clients for which compensation is paid out, against the decrease of the amount of the funds account includes in own resources. The receivable for banks who could not honour their payables to clients is accounted at the same amount against the funds account in own resources.

**(i) Subsequent events**

The impact of events which arose between the balance date and the date of drawing up financial statements is recorded in financial statements in case that these events provided additional information about the facts which existed at the balance date.

In case that significant events arose between the balance date and the date of drawing up the financial statements taking into account the facts that arose after the balance date, the consequences of these events are described in the appendix to the financial statements, but are not accounted in the accounting statements.

**(j) Changes to accounting procedures**

As of 1<sup>st</sup> January 2005, the changes of valuating real values of tradable securities and derivatives are entered in the profit and loss account as financial expenses under the other remaining expenses item or as financial revenue under the other remaining revenues item. The impact of this change was accounted in the 2005 accounting period as a change to the method through other remaining expenses and other remaining revenues (see also point 3 (g)).

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

(a) Receivables to banks who did not honour their payables to clients as of 31<sup>st</sup> December 2005 amounted to CZK 19 136 646 000 (as of 31<sup>st</sup> December 2004: CZK 19 136 646 000).

No adjustments were created to these receivables on the basis of the measure of the Czech Republic's Finance Ministry (see point 2 (g)).

(b) As of 31<sup>st</sup> December 2005 the amount of purchased securities amounted in real value to CZK 4 738 888 000 (as of 31<sup>st</sup> December 2004: CZK 3 050 701 000).  
(CZK thousand)

	31 <sup>st</sup> December 2005	31 <sup>st</sup> December 2004
Tradable bonds, debentures and similar securities	4 634 611	2 948 562
Tradable shares and similar securities	104 277	102 139
<b>Total</b>	<b>4 738 888</b>	<b>3 050 701</b>

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

(CZK thousand)

	Tradability	31 <sup>st</sup> December 2005	31 <sup>st</sup> December 2004
<b>Shares and similar securities</b> - investment certificates	Foreign stock markets	104 277	102 139
<b>Bonds, debentures and similar securities:</b>			
- state treasury bonds	Short-term bond market	2 187 732	1 260 085
- CNB bonds	Short-term bond market	100 003	0
- state bonds	Burza cenných papírů Praha ("BCPP") (Prague Stock Exchange) Main Market	754 467	1 037 867
	BCPP Secondary Market	0	20 100
	Foreign stock markets	113 619	0
- other listed bonds	BCPP Main Market	270 135	111 015
	BCPP Secondary Market	0	0
	Foreign stock markets	1 196 054	519 495
- deposit bills of exchange	Non-tradable	12 601	0
<b>Total securities</b>		<b>4 738 888</b>	<b>3 050 701</b>



(c) The Fund has not registered capital. The funds account included in own resources were covered in the following manner:

(CZK thousand)

	31* December 2005	31* December 2004
Receivables for insolvent banks	9 645 691	9 645 691
Received contributions from banks (see point 2(g))	12 262 589	12 106 266
Depreciated receivables and payables	- 2 613 782	- 2 613 782
Unauthorised compensation payments	182 100	192 135
Surplus from accounted compensation payments for insured deposits	13 493	13 493
<b>Total</b>	<b>19 490 091</b>	<b>19 343 803</b>

Overview of changes on the funds account:

(CZK thousand)

	Receivables for insolvent banks	Received contributions from banks	Depreciated receivables and payables	Unauthorised compensation payments	Surplus from accounted compensation payments for insured deposits	Total
<b>Balance as of 1* January 2004</b>	<b>9 645 691</b>	<b>8 323 795</b>	<b>- 2 613 782</b>	<b>0</b>	<b>429</b>	<b>15 356 133</b>
Received contributions and advance payments from banks (see point 2(e))	0	3 782 471	0	0	0	3 782 471
Increase of compensation payments	0	0	0	192 135	13 064	205 199
<b>Balance as of 31* December 2004</b>	<b>9 645 691</b>	<b>12 106 266</b>	<b>- 2 613 782</b>	<b>192 135</b>	<b>13 493</b>	<b>19 343 803</b>
Received contributions and advance payments from banks (see point 2(e))	0	156 323	0	0	0	156 323
Compensation payment	0	0	0	- 196	0	- 196
Specification of compensation payment	0	0	0	- 1 090	0	- 1 090
Decrease of compensation payment	0	0	0	- 8 749	0	- 8 749
<b>Balance as of 31* December 2005</b>	<b>9 645 691</b>	<b>12 262 589</b>	<b>- 2 613 782</b>	<b>182 100</b>	<b>13 493</b>	<b>19 490 091</b>

(d) Payables from payment of compensation amounted to CZK 125 433 000 (as of 31st December 2004: CZK 152 675 000) and are included in other payables.

The Fund has no payables after maturity to the state.

(e) In view of the fact that the Fund received advance payments for contributions from banks for the 2004 calculation base based on a single joint decision of the banks already in 2004, contributions from banks received in 2005 represent a specification of the advance payments. The contributions are accounted on the basis of their real receipt and are not accrued (see point 2(f)).

(CZK thousand)

	2005	2004
Contributions received from banks for the previous year	156 323	1 296 741
Advance payments from banks for contributions from banks	0	2 485 730
<b>Total</b>	<b>156 323</b>	<b>3 782 471</b>

(f) Overview of income and expenditure, revenues and expenses of the current and previous accounting period:

(CZK thousand)

	2005	2004
Revenues from the sale of securities	156 323	23 309 382
Revenues from short-term financial assets	162 849	118 805
Other revenues (see point 3 (g))	85 557	4 385
<b>Total</b>	<b>27 275 660</b>	<b>23 432 572</b>
Securities sold	- 27 035 123	- 23 343 686
Depreciation of long-term intangible and tangible assets	- 232	- 229
Consumed purchases	- 469	- 245
Services	- 7 824	- 4 919
Personnel expenses	- 4 421	- 4 076
Taxes and charges	- 5 041	- 34
Other expenses (see point 3 (g))	- 53 244	- 84 699
<b>Total</b>	<b>- 27 106 354</b>	<b>- 23 437 888</b>
<b>Profit/loss</b>	<b>169 306</b>	<b>- 5 316</b>

Other taxes and charges include legal fees connected with recovery of unauthorised paid out compensation.

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

(CZK thousand)

	2005	2004
Interest	1 884	2 151
Foreign currency exchange gains	151	0
Other remaining revenues - change to real value of tradable derivatives	36 993	2 231
Other remaining revenues - change to real value of tradable securities	10 957	0
Other remaining revenues - change to accounting procedures as of 1 <sup>st</sup> January 2005 (see point 2 (i))	35 563	0
Other	9	3
<b>Total other revenues</b>	<b>85 557</b>	<b>4 385</b>
Interest	0	80 259
Foreign currency exchange losses	- 30	0
Other remaining revenues - change to real value of tradable derivatives	- 29 999	4 440
Other remaining revenues - change to real value of tradable securities	- 16 031	0
Other remaining revenues - change to accounting procedures as of 1 <sup>st</sup> January 2005 (see point 2 (i))	- 5 633	0
Other	- 1 551	0
<b>Total other expenses</b>	<b>- 53 244</b>	<b>- 84 699</b>

(h) Loss for 2004 to the amount of CZK 5 316 000 was paid from the retained earnings from previous years account. Profit for 2005 to the amount of CZK 169 306 000 is proposed for transfer to the retained earnings from previous years account.

(i) The average number of employees is five, of which one is a senior manager. Total wage costs were CZK 4 421 000 (2004: CZK 4 076 000). Neither in 2005 nor in 2004 were any remunerations, advance payments or loans provided to members of the Board of Administration. In 2005 the Fund did not contribute to the life insurance of the executive director (in 2004 the Fund contributed with a sum of CZK 158 000).

(j) After the balance date there were no events which could have had a significant impact on the financial statements as of 31<sup>st</sup> December 2005.

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

31<sup>st</sup> May 2006



## Address:

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