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A N N U A L R E P O R T



CZECH EXPORT BANK
ČESKÁ EXPORTNÍ BANKA



C o n t e n t s



Introductory word by Chairman of the Board of Directors	2
Mission of the Czech Export Bank	3
Macroeconomic environment development	4
Selected financial indicators	5
Evaluation of state support to exports	7
Balance and structure of loan portfolio	9
Raising finance and trading in financial markets	12
International co-operation	12
Financial Results	13
Development expected in 2004	15
Czech Export Bank Management Structure	16
Organisational Chart of the Czech Export Bank	17
Report of Independent Auditors	18
IFRS Financial Statements as at 31 December 2003	21

Introductory word by Chairman of the Board of Directors

In 2003, the agenda of continued development and improved quality of state support of exports became a focus of a widely based discussion. As a result, a key document was prepared, adopted by the Czech Government in December 2003 under the name "Conception of Continued Development of State Support to Exports through Credit Insurance and Exports Financing with State Support for Period 2003 - 2006".

In the course of the Conception preparation, representatives of all stakeholders, including the business community, provided their opinions on the agenda, which proved to be quite beneficial. Core ideas of the adopted Conception were then further detailed and approved by the Board of Directors of the Bank at the end of 2003.

Already during the year, the Bank had been working hard to get prepared for changes in its activities in accordance with the key documents. It concentrated its efforts on the preparation of restructuring its commercial conduct, the improvement its client-oriented approach, and the complementation of its product portfolio and ensures it provides a comprehensive service to the Czech exporters and producers. The goal was to further improve the client friendliness of services by Česká exportní banka ("the Czech Export Bank" or "CEB"). This work will get yet more intensive during 2004. The Czech Export Bank applied for its banking licence to be extended and obtained the relevant authorisation from the Czech National Bank in September 2003. The Czech Ministry of Finance approved the "General Business Terms and Conditions Applicable to Procurement of Documentary Collection and Processing of Documentary Letters of Credit" as drafted by the Bank.

Preparation of the change programme and new strategy of the Bank, in accordance with the Government's "Pro-export Policy Conception for Period 2003 - 2006", was carried out concurrently to the continuous balanced development of the Bank's activities. The Czech Export Bank further reinforced its position

in the Czech financial market in 2003. The balance sheet assets amounted to CZK 26.1 billion as at 31 December 2003, which represented a year-on-year increase by 3 %. Loans drawn amounted to approx. CZK 13.1 billion in 2003 and the total balance of loans closed at CZK 21,1 billion at the year end, thus representing a year-on-year increase by approximately 11%. In market position terms, the total loan balance of the Czech Export Bank was by 2.1% of the total balance of loans and receivables in the Czech Republic, while specifically for the medium and long term credits made out in foreign currencies (which is the premium segment of activity of the Czech Export Bank) the Bank's share exceeded 20%.

In 2003, the Czech Export Bank continued to develop its co-operation with other institutions that implement the state support policy for exports and business on a more general scale. Co-operation was reinforced with the Export Guarantee and Insurance Corporation (EGAP), and the Czech Trade and Czech Invest Agencies. The Bank co-operated also with the professional and industrial associations of businesses and businessmen, in particular with the Czech Union of Industry and Transport, Economic Chamber of the Czech Republic, Association of Small and Medium Enterprise and other organisations. It promoted its offered product range with business entities, making use of local exhibitions and trade fairs, mostly through numerous specialised workshops and conferences. The Czech Export Bank asserted its position and repute in both the Czech and international banking community, in the OECD Consensus bodies and in relations with its partner institutions throughout the European Union and elsewhere.

I feel confident that the Czech Export Bank, from the long term perspective, has been true to its function for which it has been established by its shareholders. Also, the Bank has built up a solid basis, enabling it to meet the expectations of its major shareholder, i.e. the state, as well as of the business community, by providing improved dynamics and quality of its services.

Ing. Ladislav Zelinka, Ph.D.
Chairman of Board of Directors

CZECH EXPORT BANK

Mission of the Czech Export Bank

Czech Export Bank is part of the Czech state's pro-export policy system. It is a specialised banking institution, owned by the state (69.7 %) and the state-owned Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Corporation, "EGAP"). CEB has been designated to operate state-supported financing, in accordance with the Act no. 58/1995 Coll., On Insurance and Financing of State-supported Exports and on Amending the Act no. 166/1993 Coll., On the Supreme Audit Office, as amended by Act no. 60/1998 Coll., Act no. 188/1999 Coll., and Act no. 282/2002 Coll., ("Act no. 58/1995 Coll."). The Act defines state-supported financing as short and long-term financing and extension of export credits, credits for financing the export production, investment credits and project finance credits, as well as provision of export related financial services.

The CEB's mission is to support Czech exports; the key goal of its activities therefore is maximizing the amount of the state-supported exports, rather than generating maximum profits. In spite of the distinction from the commercial banking sector and the fact that provision of state-supported financing is stipulated by special legislation (Act no. 58/1995 Coll.), CEB is nonetheless a standard element of the Czech banking system and its activities are fully governed by the applicable banking legislation, most importantly by the Act no. 21/1992 Coll., On Banks, as amended, and the follow-up regulations of the Czech National Bank, as well as by the Act no. 59/2000 Coll., On Public Support, as amended by Act no. 130/2002 Coll. CEB is further required to abide by international commitments of the Czech Republic and has therefore been providing state-supported financing compliant to the principles of the World Trade Organisation (WTO) and rules set down by the "Arrangement on Guidelines for Officially Supported Export Credits" (so-called OECD Consensus), including directives on fighting corruption and on assessing export projects assisted by state-supported financing as to their environmental impact on the importer country.

Strict compliance with all international agreements, in particular with the OECD rules adopted also by the European Union as its standard, has been enhancing the CEB's credibility from the international perspective, while it has also been a particular example of harmonising the Czech legislation and banking practice to

the EU standards and has been creating favourable prerequisites for future integration of CEB into the EU banking system.

The role of CEB, as a specialised banking institution established to support exports and serve as the Government's tool in promoting business policy plans is envisaged to be maintained over a comparatively long period. It is a standard element of a pro-export policy, employed in practically all advanced economies as well as in other economies with a pro-export focus. For supporting exports, CEB has been making use of the terms and conditions stipulated for the segment by international agreements and it has been providing a convenient complement of the commercial banks' activities in the Czech Republic in the areas left outside the latter's scope of attention due to business reasons. CEB's activities are consequently structured in the manner enabling it to support and finance all export projects pending that satisfy the criteria of state support of exports and financial efficiency, while providing for the maximum secured rate of return on the employed funds.

Events important for CEB's activities in 2003:

- Czech Government Resolution no. 188 of 24 February 2003 on the "Pro-export Policy Conception for Period 2003 - 2006" that represents a basis for the CEB operations in the next periods,
- Czech Government Resolution no. 1263 of 17 December 2003 on the "Conception of Continued Development of State Support to Exports through Credit Insurance and Exports Financing with State Support for Period 2003 - 2006" that has provided specification of the state support to exports,
- Detailed reflection of the above conception in the internal regulations of CEB,
- Obtaining of a new banking licence in accordance with the Act no. 21/1992 Coll., On Banks,
- Obtaining of an extended banking licence, issued by CNB, covering provision of additional export related services,
- Resolution by the General Meeting on an increase in the share capital by CZK 100 million,
- Resource transactions (a bilateral amortised loan and issue of bonds at the total amount of USD 215 million to raise finance for funding the developing activities of CEB).

Macroeconomic environment development *

The gross domestic product noted real growth by 2.9% in 2003. As a result, the national economy's dynamics improved compared to the previous year and got closer to the rates recorded by GDP over 2000 and 2001. The overall industrial production measured at fixed prices increased by 5.8% in 2003 and the same rate was achieved by the manufacturing industry. Economic growth has been asserting itself based on the ongoing restructuring and modernisation of production driven by direct foreign investment. A quite hesitant recovery of growth within the EU, revealed as low dynamics of external demand, has not shown significant impacts on the country's total industrial production, which is a proof of improved competitiveness.

Growth on the demand side was encouraged namely by the high dynamics of the household consumption. Investment outlays also noted visible revival. The shift of the economy dynamics towards investments, which took place at the end of 2003, is appreciated as it provides conditions for accelerating potential growth. The economy performance (GDP) increase, given a decline in the overall employment rate, was ensured exclusively by improved work productivity, which noted an increase 3.6% in 2003. The pressure on productivity of work resulted in the workforce dismissals, specifically in the industrial and agricultural sectors. The total employment rate dropped by 0.7% on the year-on-year scale. The average unemployment rate increased by 0.7 p.p. in 2003 and amounted to 10.3% at the year's end. The average gross nominal wage grew by 6.8% in 2003, recording a slower rate compared to 2002. The mean inflation rate on the consumer price basis recorded only 0.1% in 2003, i.e. less by 1.7 percentage point as compared to 2002.

The trade balance deficit remained at approximately the same level in 2003 as in the previous year and amounted to CZK 69.4 billion. The CZK exchange rate development (appreciating to USD and depreciating

to EUR) reduced the foreign trade balance by approximately CZK 13 billion (the exports volume increased by approx. CZK 9 billion and volume of imports dropped by approx CZK 4 billion). Despite low economic growth in the partner countries, the goods exported rate outstripped the imports dynamics (by 5.8% in current prices denominated in EUR, compared to 5.1% according to the trade balance statistics). The CZK nominal rate to EUR depreciated by 3.2% on average in 2003, while it appreciated by 16.0% to USD.

According to the preliminary figures of the customs statistics, the exports amounted to CZK 1,371.8 billion and imports to CZK 1,441.2 billion. The trade balance deficit, following the year-long improvements during 2002, maintained around the previous year's values in 2003 and amounted to CZK 69.4 billion, i.e. a drop by CZK 1.9 billion. This was in particular due to the fact that the period of the year-on-year appreciation of koruna to euro came to an end.

From the territorial perspective the foreign trade development was described by an increasing surplus on the trade balance with the European Union members and continually growing deficit with the other groupings, except for the CEFTA area. Trade with the EU members has been making up slightly less than 65% out of the total volume in the long-term run. The trade deficit with the non-European advanced market economies (in particular Japan and the US) continued to grow, as well as with non-European transition economies or state-based economies ("other TE countries", i.e. China for larger part) and with developing countries. The trade deficit with Russia grew due to increases in fuel prices. From the commodity structure perspective, the key contribution to the improved trade balance was made by the Machinery and transport equipment (SITC 7 group), which noted a surplus of CZK 71.3 billion, i.e. a year-on year increase by CZK 10.1 billion

* compiled based on supporting documentation of the Czech Ministry of Finance

Selected financial indicators

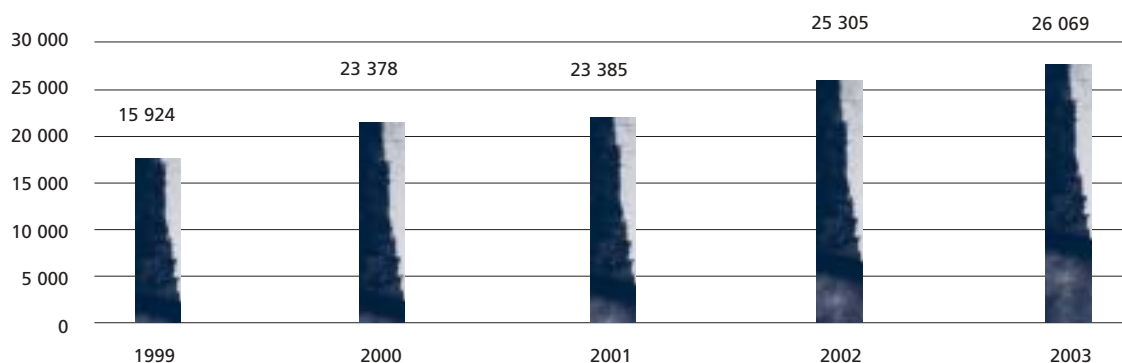
In 2003, CEB continued to reinforce the role of state support to exports within the Czech economy as well as its position on the Czech financial market. The table below provides an overview of the key indicators (according to IFRS):

Indicator	Actual 1999	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Growth index 2/1	Growth index 3/2	Growth index 4/3	Growth index 5/4
	1	2	3	4	5	6	7	8	9
Balance sheet									
Balance sheet assets (in CZK millions)	15,924	23,378	23,385	25,305	26,069	146.8	100.0	108.2	103.0
Equity (in CZK millions)	1,715	1,912	1,763	2,209	2,272	111.5	92.2	125.3	102.9
Total loans at nominal value (in CZK millions)	12,642	18,722	18,106	18,970	21,071	148.1	96.7	104.8	111.1
Debt securities (in CZK millions)	8,970	14,927	15,431	16,405	18,673	166.4	103.4	106.3	113.8
Financial results									
Total income (in CZK millions)	322.8	484.6	425.9	469.8	255.9	150.1	87.9	110.3	54.5
General operating expense (in CZK millions)	131.7	148.5	152.6	169.8	184.5	112.8	102.8	111.3	108.7
Profit after tax (in CZK millions)	38.3	47.3	83.5	211.9	63.1	123.5	176.5	253.8	29.8
Ratios									
Return on average equity (%)	2.26	2.61	4.54	10.67	2.82	115.5	173.9	235.0	26.4
Capital adequacy (%) ¹⁾	65.33	77.96	78.83	85.24	69.53	119.3	101.1	108.1	81.6
Other data									
Employee numbers	113	120	123	123	124	106.2	102.5	100.0	100.8
Share of classified loans (%)	0.7	0.7	0.8	0.6	6.4	100.0	114.3	75.0	1118.6
Exchange rate CZK/USD	35.98	37.81	36.26	30.14	25.65	105.1	95.9	83.1	85.1

1) according to CNB methodology

Its assets amounted to CZK 26.1 billion as at 31 December 2003, recording a year-on-year increase by 3%. Newly extended credits amounted to approximately CZK 13.1 billion in 2003 and the overall balance of loans totalled to CZK 21.1 at the year-end, representing a year-on-year increase of more than 11%. In terms of the market position, CEB's total loans and receivables share in the total loans and receivables in the Czech Republic represented more than 2%, while its share in the medium and long-term credits provided in foreign currencies (a predominant area of operation for CEB) amounted 20.3%.

Balance sheet assets development in 1999 - 2003
(in CZK millions)



Receivables from provided loans of CZK 22.6 billion participate with 86.6% on total CEB assets. Out of the overall amount of loans of CZK 21.1 billion, 69% were granted to the banking entities in the Czech Republic and internationally, while the remaining portion was represented by loans provided to non-banking clients. A decisive proportion was represented by the loans extended by CEB in accordance with international agreements on financing state-supported exports, most specifically in accordance with the OECD Consensus. While developing its activities into more risky territories, CEB has continuously maintained high quality of its loan portfolio. An increase in the classified loans proportion (under the watch debts category, without a need to make additions to provisions) has been a result of CEB's prudent policy being applied to two major clients.

CEB has covered its finance resource needs by issues of bonds at the total value of USD 500 million and CZK 5.5 billion, a syndicated revolving loan at USD 200 million and bilateral borrowings. The key new leverage transactions in 2003 included a bond issue on international markets at USD 150 million and a bilateral amortised loan at USD 65 million.

CEB closed with the after-tax profits of CZK 63.1 million in 2003, which was generated specifically by the income from financing activities, written-back general banking risk provisions and economies of operating expense. The average return rate on the risk-weighted

employed capital amounted to 2.8%, which should be deemed appropriate given the CEB's profile. Capital adequacy amounted to 69.5% as per the CNB methodology and is deemed sufficient.

Newly signed contracts totalled CZK 9.8 billion in 2003. 58% included products directly supporting exports (such as financing of export credits, credits for investments by Czech legal persons abroad and provision of non-payment guarantees), while the residual part included financing of export production.

CEB, as a banking institution, observes all CNB prudential banking business requirements. CEB maintains contacts with leading rating agencies and has been granted the same rating by them as the Czech Republic, specifically "A-" by Standard and Poor's and "A1" by the Moody's Investors Services. When looking at the CEB's key strengths, the rating institutions have appreciated the state ownership; state guarantee for liabilities attached to repayment of acquired financial resources and for liabilities for other transactions on financial markets; transparent rules of providing state support to exports; insurance of export credit risk with the minimum residual risk, which provides for high quality of assets and long-term stable financial position of CEB. The above feature is an important addition to the CEB's position as an integral part of the government pro-export policy and provides a credible partner for both exporters from the Czech Republic as well as investors and other creditors of CEB.

Evaluation of state support to exports

The core path of the CEB business strategy has been defined by the country's pro-export policy conception, in which the CEB operation has been highlighted as one of the foremost segments of the state's pro-export policy. In the medium term, the key directions of CEB activities are based on the "Pro-export Policy Conception for Period 2003 - 2006" adopted by the Czech Government by its Resolution no. 188 of 24 February 2003. The key focus of the state's pro-export policy was further detailed in the "Conception of Continued Development of State Support to Exports through Credit Insurance and Exports Financing with State Support for Period 2003 - 2006", as adopted by the Czech Government by its Resolution no. 1263 of 17 December 2003.

While CEB's activities have not been specialised in terms of territory or commodity, the Bank has been pursuing its priority goals resulting from the Czech Government's pro-export policy and building clearly on the traditional export commodities. Furthermore, CEB has been endeavouring to make support of exports accessible not just to the large-scale exporters but also to the small and medium enterprises that have so far entered only initial stages of their business and export activities. By providing state-supported

finance, CEB enables Czech exporters to join the competition on the global market and under conditions comparable to those enjoyed by the key competitors in other advanced economies. By this, the Bank has been complementing the range of services offered by the commercial banking sector with financing of export transactions in the areas otherwise out of focus of that sector due to commercial reasons. A highly important feature in CEB's role is that the Bank's liabilities for repayment of acquired financial resources and for other transactions on financial markets are guaranteed by the state in accordance with the Act no. 58/1995 Coll., resultant to which the Bank is able to raise finance on the financial markets under the conditions otherwise applicable to the sovereign risk bearers.

CEB's activities in its key business field, i.e. that of financing state-supported medium and long-term export credits, has been critically dependant on the development of production and export performance of producers, in particular producers of complete industrial plants. This is complemented with an option to finance, through short-term credits, exports and export production in relation to large, medium and small enterprises.

Signed contracts (in CZK millions)	Actual 2002	Actual 2003	Y-o-Y index % %
1	2	3	3/2
Total supported export financing	15,626	9,813	62.8
out of which: Export credit financing	7,442	5,440	73.1
Investment credit financing	212	84	39.6
Export production financing	4,967	4,100	82.5
Guarantees	3,004	189	6.3

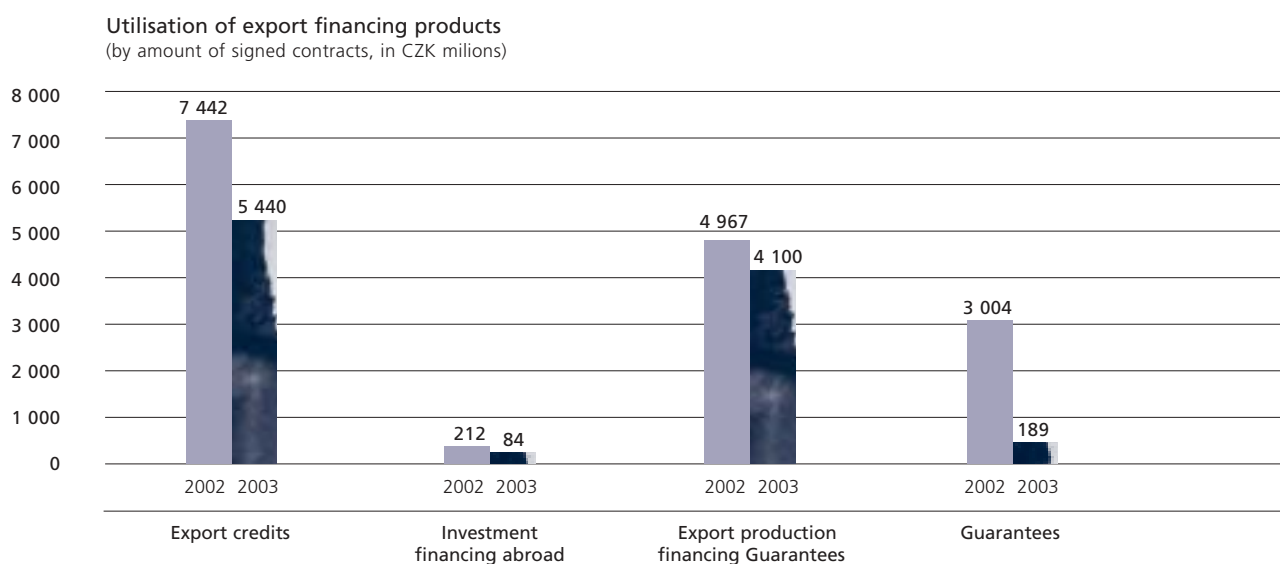
Newly signed business contracts of a total amount CZK 9.8 billion included almost 60% of those relating to direct support of foreign trade transactions (such as export credits, guarantees and investment financing), while the rest consisted of credit transactions preceding the actual export transaction (i.e. export production

financing). The key references would include e.g. finalisation and completion of the Shen Tou business deal; financing of export of TV screens and their components to Turkey; export of tractors to the US; investment into water power plants in Bulgaria; and export of coal to Slovakia.

The drop in the volume of newly signed contracts in 2003 reflects the performance of production and export of industrial plant manufacturers, where the decline commenced back in 1998 has proved to be a permanent one and has been also affecting demand for medium and long-term financing of exports using

the CEB products. This trend continued also throughout 2003. Resultantly, other export commodities have been rising in importance in terms of export financing employing the CEB products, typically involving recurrent exports and described as a rule by revolving financing.

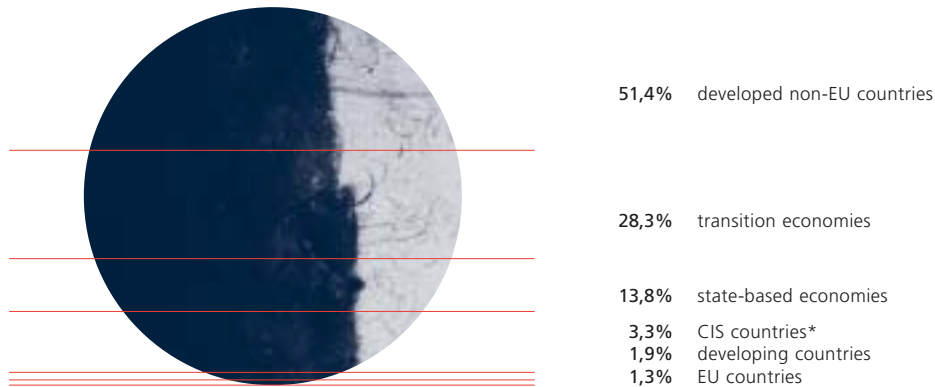
The below chart provides an overview of structures of separate types of supported financing and its development.



The below chart provides an overview of amounts of the newly signed contracts by territory:

Territorial structure of contracts signed over period 01 - 12 / 2003

Total CZK 9 813



* CIS (Commonwealth of Independent States)

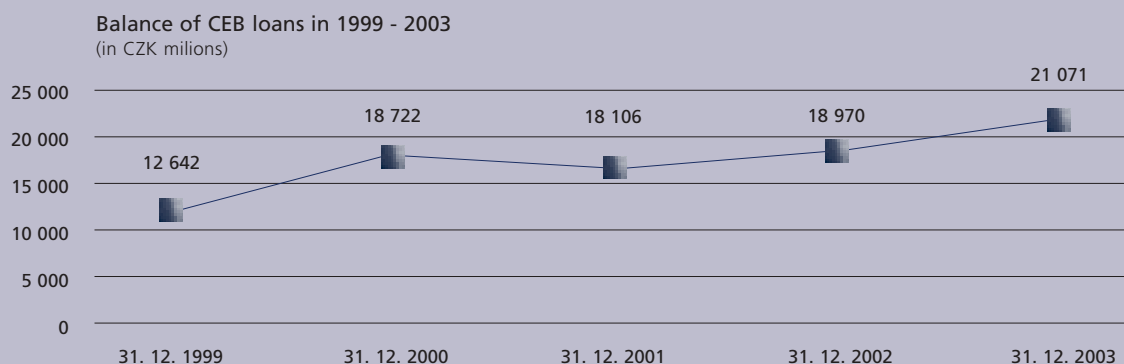
From a territorial perspective, financing involved projects in Turkey, Slovakia, China, the USA, CIS countries et al., while the proportion of signed contracts for support of exports into countries outside the EU and transition economies amounted to almost 80% of the total volume.

Balance and structure of loan portfolio

Newly provided loans totalled to CZK 13.1 billion during 2003. The balance of loans, when set out in CZK, amounted to CZK 21.1 billion as at 31 December 2003 and noted a year-on-year increase by CZK 2.1 billion compared to the same period of 2002, which represents an increase by more than 11%. The most

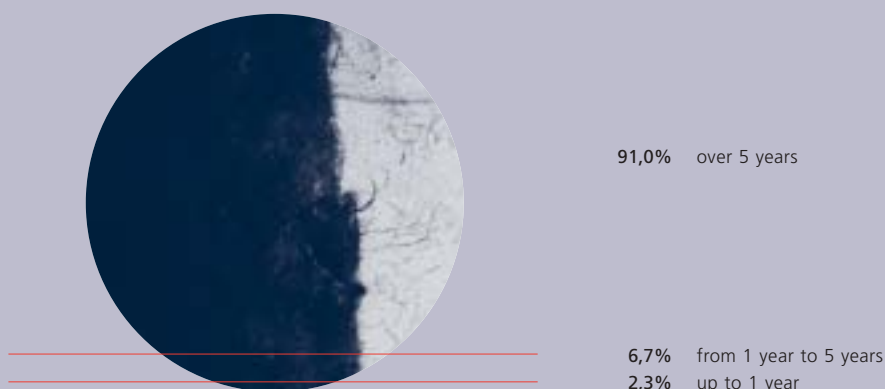
important business deals included a credit for financing the Afsin Elbistan power station; for financing the Sosnogorsk natural gas processing plant; for financing complementary construction of the Mochovce nuclear power plant; and financing of construction of 2x500 MW blocks of the Shen-Tou power plant.

The below chart provides a summary of development in extended credits over time.



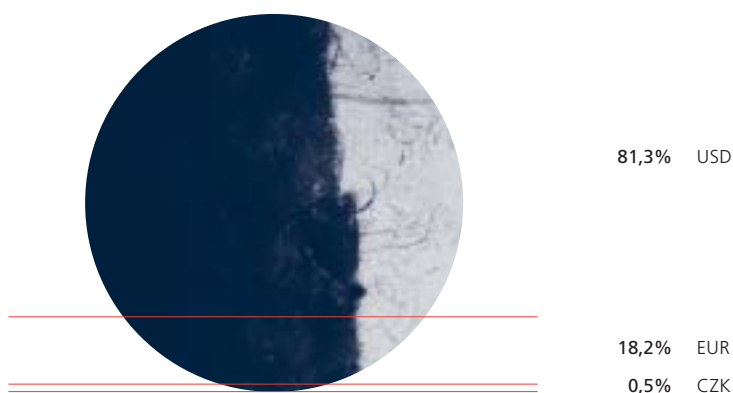
From the time structure perspective, and in accordance with the methodology in force, loans with maturity over 5 years continued to prevail in the portfolio of extended credits in 2003, and their share exceeded 90%. Proportion of loans maturing in 1 year noted a small increase, while the proportion of medium term loans (maturing in 1 to 5 years) decreased.

Balance of loans by maturity as at 31 December 2003
(Total CZK 21 071 million)



With regards to the currency structure of the balance of loans, a dominant position continued to be maintained by USD loans in 2003. The share of this currency, however, dropped by almost 7% on a year-on-year scale, surrendering to the EUR. The EUR share in the total balance of extended loans continued to grow and recorded more than 18% as at 31 December 2003. CZK denominated loans share are marginal in the total balance of loans.

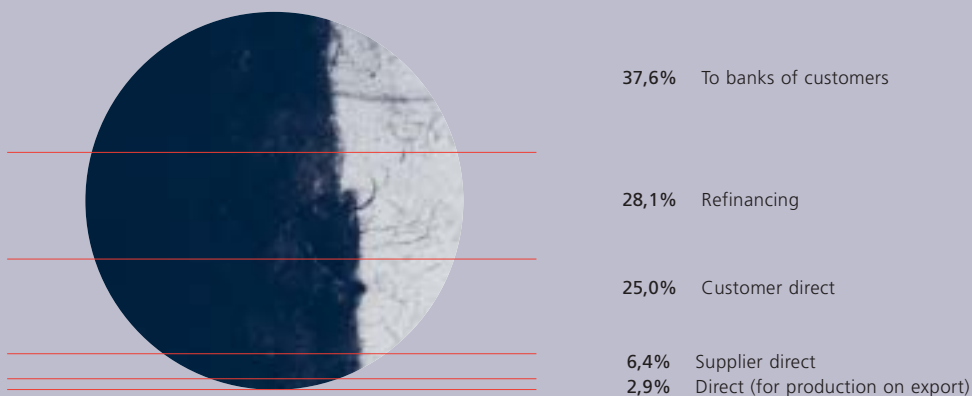
Balance of loans by maturity as at 31 December 2003
(Total CZK 21 071 million)



From the perspective of credit recipients, banking institutions are the prevailing type of entity, both the banks operating on the Czech Republic territory and foreign banks of importers. Compared to 2002, the proportion of credits provided to banking entities in the total balance of loans dropped but marginally.

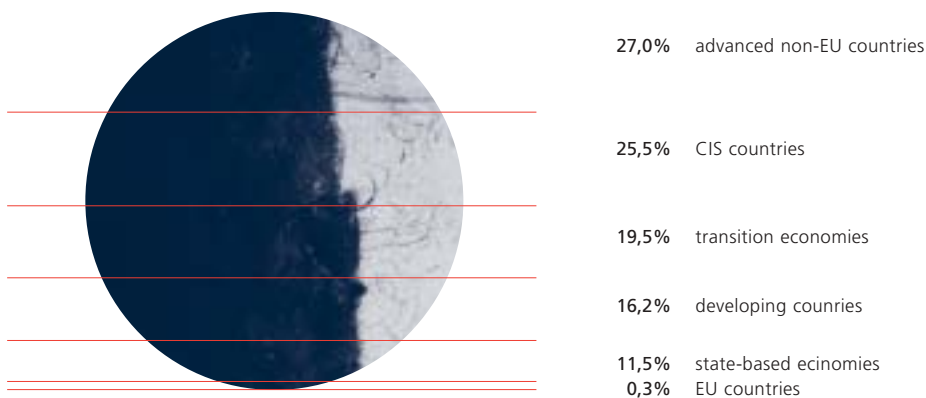
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Balance of loans by debtor type as at 31 December 2003 (Total CZK 21 071 million)



From the territorial structure perspective, a major part of loans provided by CEB goes to the developing and transition economies and to the former CIS countries. The structure is represented by the chart below.

Balance of loans by target country as at 31 December 2003 (Total CZK 21 071 million)



EU countries - FRG, Austria, Italy, State-based economies - China, Advanced non-EU countries - Turkey, USA
Transition economies - Serbia and Montenegro, Slovakia, Bulgaria, CIS countries - Russian Federation, Uzbekistan, Belarus, Ukraine, Developing countries - Philippines, Iran, Tunisia

Raising finance and trading in financial markets

Finance raising activities were performed so as to ensure sufficient resources for CEB, these were conveniently structured in terms of currency and maturity, enabling the Bank to satisfy demand for the provision of state-supported financing and perform continuously its other liabilities. In order to cover the existent needs, CEB was using both the funds obtained during previous periods and finance newly raised in 2003.

CEB executed two basic transactions on the capital and money markets in 2003:

- In June 2003, a contract was signed with the DEPPFA BANK plc, Dublin, Ireland, on a bilateral amortised loan, under which CEB has borrowed an amount of USD 65 millions with the final maturity of 6 years and fixed interest rate, and
- In November 2003, an issue of bonds was introduced on international markets amounting to USD 150 million. The issue has maturity of 5 years and a fixed coupon. To role of lead managers has been under-

taken by ABN AMRO Bank and Goldman Sachs. Resources generated by the issue have been used to finance newly prepared business deals.

Bank and client accounts represent a source complementing the basic leverage obtained through loans or issued bonds, while these are either current accounts serving to perform payments relating to the state-supported financing transactions or time and purpose deposits accepted by CEB namely to secure recoverability of extended finance.

In addition to raising finance, CEB was carrying out further standard transactions on the financial markets for the purposes of liquidity management and market risk minimisation. Any activities of CEB on the financial markets were performed in the manner ensuring compliance with the core requirement of the minimum risk exposure. This primary requirement prevailed over the profit criterion.

International co-operation

Similarly to previous years, CEB carried on its co-operation with the OECD working groups for export credits in 2003. From the international rules perspective, the key changes include those implemented by the Participant group of the OECD Consensus in response to certain WTO panels on the relationship between the Consensus and WTO Agreement on Subsidies and Countervailing Measures. Most importantly, transparency was increased of the key provisions of the above document and it was made accessible to all other WTO member countries. At the same time, the countries were authorised to access certain information on a reciprocal basis, provided by the Consensus members, concerning the terms and conditions of formal support of exports. This has provided an opportunity for other countries at provision of formal support of exports to offer terms and conditions that are identical to those applied e.g. in the OECD countries.

Activities of the OECD Export Credits and Credit Guarantees Group (ECG) focused in particular on a review of principles of assessing environmental impacts the

state-supported export projects have within their target destination country. The activities were referring to an international commitment adopted on the OECD platform in November 2001 and joined also by the Czech Republic. Adopted changes brought e.g. improved openness in the publication of information and improved flexibility of the use of comparative standards. Overall, this should contribute to reducing state support for such export projects that may potentially adversely impact the environment. CEB has been already applying the standards to its activities.

In the second half of 2003, CEB also became involved in the work of the EU Council Working Group for export credits. Regular meetings of the group serve to co-ordinate views and opinions of the EU members, or, of the European Commission on all issues that are subsequently discussed in the OECD working groups in Paris.

In the bilateral co-operation area, CEB focused, in particular in the second half of 2003, on the more

active development of relationships with both local and foreign banks. One of the key goals in that respect is intensified use of the framework credit contract instrument and, resultantly, development of an increased potential to finance Czech exports into interest territories. There was a clear trend of growing interest in business co-operation with partners in the

Russian Federation and other CIS countries, while new correspondent relationships were established with 15 foreign banks. Furthermore, CEB paid attention also to discussing new opportunities of co-operation with international financial institutions, such as EBRD, with which it has had a co-operation agreement since 1996.

Financial results

Balance sheet information

Balance sheet assets of CEB amounted to CZK 26.1 billion in 2003, recording an increase by approx. CZK 0.8 billion or 3%, compared to the previous year. The structure of assets and liabilities has been comparatively stable, without any marked year-on-year fluctuations.

In the equity and liabilities section, the equity represents 8.7%, while liabilities, including provisions and liabilities, amount to 91.3%. The equity amounted to almost CZK 2.3 billion and appreciated by 2.9% as compared to 2002. The share capital balance remained unchanged during 2003 and totalled CZK 1.65 billion. Issues of foreign currency and CZK bonds are the basic and long-term stable source of finance for all CEB's activities related to support of exports. The bonds amounted to CZK 18.7 billion and cover almost 72% of the total assets. This resource basis has been complemented with borrowings from banks totalling to CZK 3.7 billion and resources received from non-banking clients totalling to CZK 0.9 billion.

Compared to the previous year, the amount of issued bonds increased as a result of the new issue that served to cover the developing business activities of CEB and to replace the resources obtained from banks at the same time. Reduced liabilities to clients are mostly due to an outflow of cash from current accounts.

On the asset side, the balance of receivables from loans (including accrued interest receivable and service payments) extended both to banking entities and clients amounted to CZK 22.6 billion and represented 86.7% out of the total assets. These receivables grew

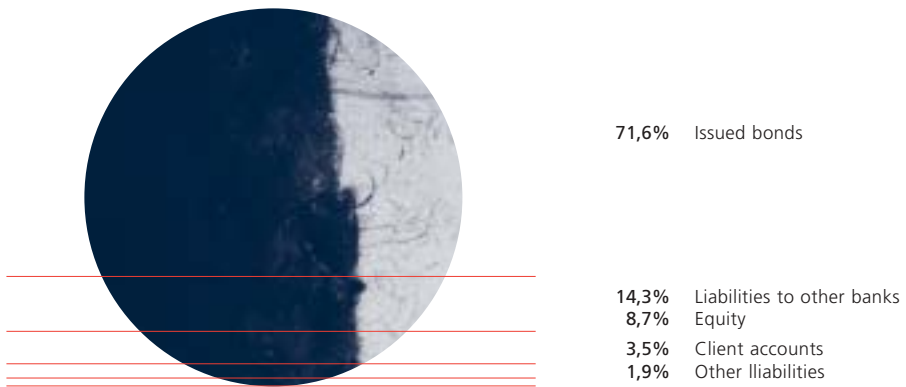
in their volume by almost CZK 2.6 billion on a year-on-year scale, i.e. by 13%, also receivables from loans to customers grew up at faster rate. The share capital resources, as well as temporarily unemployed free resources of state support to exports (amounting to CZK 2.2 billion) are mostly invested on the interbank market. Decreased volume of such transactions corresponds to higher use of these resources for credit purposes

Generation of profit

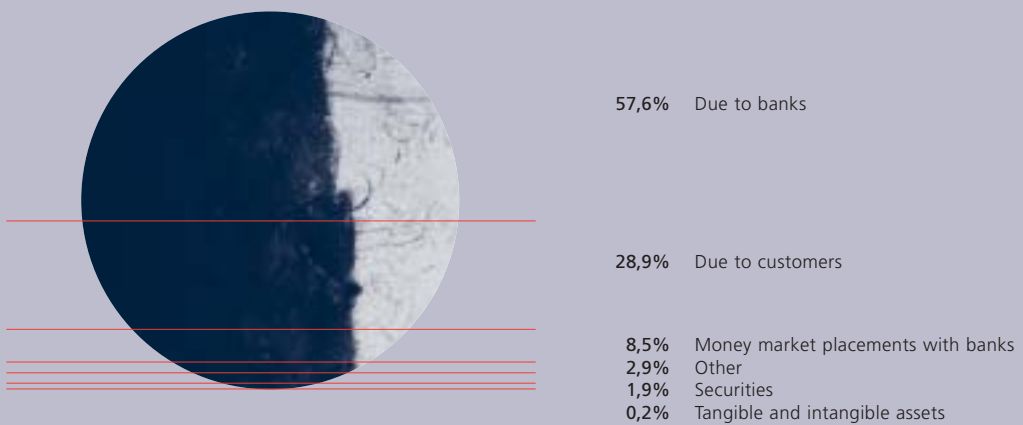
CEB generated a profit of CZK 63.1 million in 2003, although profit generation is not the Bank's priority. The year-on-year drop in profits was due to a drop in the interest earned on namely interbank deals as a result of declined interest rates, and due to a drop in collected charges, as compared to 2002 during which certain major business deals were closed. In view of the above, the amount of profits generated in 2002 may be deemed extraordinary as a result of general banking provision release.

The profit amount was influenced specifically by the gains from financial transactions that amounted to CZK 170 million and significantly compensated for the loss on interest income. Operating expense amounted to CZK 184 million, thus recording a year-on-year increase by 8.7%. That was for major part represented by the staff costs and outsourced services costs. CEB carried on its prudent policy in 2003 and expensed only CZK 4 million for additions to provisions for coverage of specific risks similarly to last year.

The chart below provides an overview of the equity and liabilities structure.



The chart below provides an overview of the asset structure.



Development expected in 2004

Following its approved development conception, CEB will proceed with its best efforts to continue fulfilling its key mission in 2004 - i.e. to support Czech exporters in successfully withstanding competition on the global market. CEB has planned to achieve that both by expanding its offered range of products and services, as well as by flexibly combining separate types of export support and accelerating and simplifying the credit authorisation process. The change process was finalised at the end of 2003 and the change implementation has been taking place in 2004 (a new business model, acceleration and simplification of authorisation and other processes). The above changes shall result in a bank with a strong client focus, offering its clients solutions to their financial needs instead of imposing off-the-shelf products and plans on them. The Bank's management feel confident that this direction of state-supported export financing proves reasonable under expected sharper competition upon the Czech accession of the European Union.

CEB is prepared to respond flexibly to requests by Czech producers and exporters for assistance in the implementation of challenging plans for structured financing and co-financing of large projects with participation of foreign partners, including international financial institutions. In view of that, CEB expects the levels of state support to exports to increase by approx. 4 - 5%, due to contracts envisaged to be signed with local exporters. CEB will also continue its

business and marketing offensive commenced back in 2002 and focused on acquisition of new clients, in particular among the small and medium enterprise sector.

In 2004, CEB has planned for continued increases in the balance of loans and the balance sheet assets, together with raising new finance. Given the forecasted use of loans, the total loan balance is expected to increase by at least 15% as at 31 December 2004, as compared to the actual at the same date of 2003. While local and foreign banking entities will remain to be the key recipients of credits extended by CEB, theirshare will be dropping slightly, giving way to the client loans.

Long-term loans maturing beyond 5 years will keep their position of the most frequently used product. The currency structure of provided loans will partly change during 2004. The share of loans denominated in CZK is expected to increase somewhat at the expense of the loans denominated in USD. However, USD will continue to be the key contractual currency with its forecasted share slightly below 80%.

In terms of its business operation, CEB expects to keep its financial stability through sufficient coverage of credit risk, with the key input by EGAP insurance of the credit risk on export, and to maintain reasonable profitability.

CZECH EXPORT BANK

Czech Export Bank Management Structure

Board of Directors

Chairman

Ing. Ladislav Zelinka, Ph.D.
Ministry of Finance of the Czech Republic

First Vice-chairman

Ing. Václav Petříček, CSc.
Ministry of Industry & Trade of the Czech Republic

Second Vice-chairman

Ing. Josef Tauber
Czech Export Bank

Members

Ing. Pavol Parížek
Export Guarantee and Insurance Corporation

Ing. Karel Venera
Ministry of Agriculture of the Czech Republic

Ing. Milena Horčicová, CSc.
Ministry of Finance of the Czech Republic

Ing. Miroslava Hrnčířová, CSc.
Czech Export Bank

Ing. Vlastimil Gejdoš, CSc.
Ministry of Industry & Trade of the Czech Republic

Ing. Tomáš Husák
Ministry of Foreign Affairs of the Czech Republic

Supervisory Board

Chairman

JUDr. Miroslav Somol, CSc.
Ministry of Industry & Trade of the Czech Republic

Vice-chairman

Ing. Jiří Šiman
Ministry of Finance of the Czech Republic

Members

Ing. Helena Knížková
Ministry of Foreign Affairs of the Czech Republic

Bc. Petr Krejčí
Ministry of Agriculture of the Czech Republic

Ing. Ladislav Dvořák
Czech Export Bank

Ing. Jiří Brudňák
Czech Export Bank

Executive management

Ing. Josef Tauber
Chief Executive

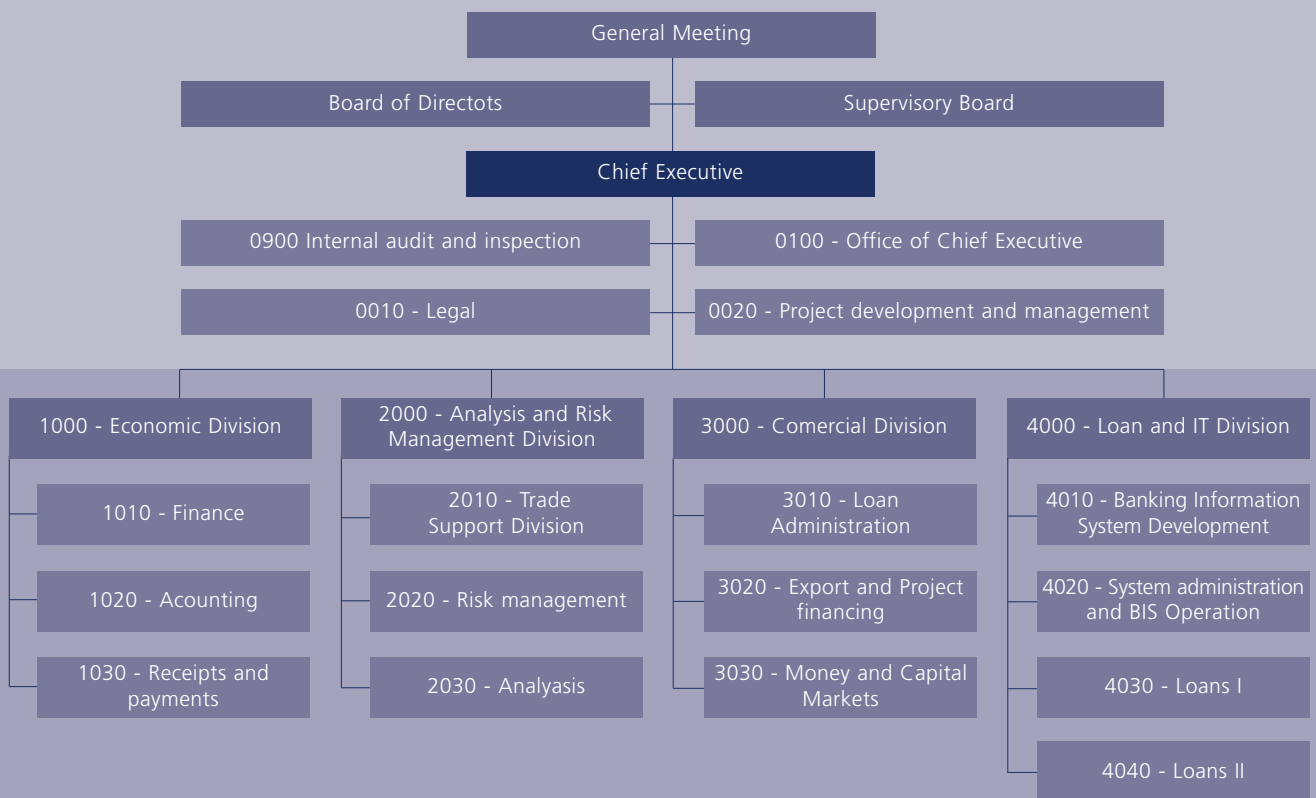
Ing. Miroslava Hrnčířová, CSc.
Deputy Chief Executive
Commercial Division

Ing. Miloslav Kubišta
Deputy Chief Executive
Economic Division

Ing. Ladislav Dvořák
Deputy Chief Executive
Loan and IT Division

Ing. Karel Tlustý
Senior Director
Analysis and Risk Management Division

Organisational Chart of Czech Export Bank



CZECH EXPORT BANK



PricewaterhouseCoopers Audit, s.r.o.
Kotěvská 40
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF ČESKÁ EXPORTNÍ BANKA, A. S.

We have audited the accompanying balance sheet of Česká exportní banka, a.s. (hereinafter the "Bank") as at 31 December 2003, the related statements of income, changes in equity and cash-flows for the year then ended presented in the annual report of the Bank on pages 22 to 46 ("the financial statements"). These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the Bank as at 31 December 2003, and the results of its operations, its changes in equity and its cash-flows for the year then ended in accordance with International Financial Reporting Standards.

We have examined whether the supplementary financial information included in the annual report of the Bank on pages 1 to 20, which does not form part of the financial statements for the year ended 31 December 2003, is consistent with the audited financial statements of the Bank. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

20 May 2004

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner and Auditor, Licence No. 1140



Financial statements for the year ended 31 December 2003
according to international financial reporting standards and auditors' report

Financial statements for the year ended 31 December 2003 (in CZK'000)

Income statements			
	Note	31 December 2003	31 December 2002
Interest income		1,129,991	723,039
Interest expense		(1,163,845)	(672,852)
Net interest income/(expense)	4	(33,854)	50,187
Net fees and commissions	5	50,162	110,360
Trading results	6	170,464	7,956
Other income/(expense), net	7	6,083	314
State subsidy	7	63,003	301,012
Total income		255,858	469,829
Operating expenses	8	(184,530)	(169,776)
Profit before provision for loan losses		71,328	300,053
Provision for loan losses	9	(3,606)	(3,728)
Profit before taxation		67,722	296,325
Taxation	10	(4,632)	(84,460)
Profit after taxation		63,090	211,865

Financial statements for the year ended 31 December 2003 (in CZK'000)

Balance sheets			
	Note	31 December 2003	31 December 2002
Assets			
Cash in hand and balances with the central bank	11	24,238	32,630
Current accounts with other banks	34	18,460	25,573
Money market placements with banks	12	2,216,629	3,259,670
Available for sale securities	13	483,530	788,092
Derivative financial instruments	27	685,904	1,079,369
Originated loans to banks, net	14	15,026,110	13,985,791
Originated loans to customers, net	15	7,543,606	6,023,532
Property, plant and equipment, net	16	9,440	11,964
Intangible assets, net	17	39,007	49,178
Prepayments and accrued income	18	5,198	4,957
Other assets	19	17,183	44,139
Total assets		26,069,305	25,304,895
Liabilities			
Term deposits from banks	20	3,739,548	4,520,045
Derivative financial instruments	27	208,902	344,597
Amounts owed to customers	21	915,308	1,419,083
Debt securities	22	18,673,258	16,405,354
Tax liabilities	10	8,767	88,287
Provisions, accruals and deferred income	23	228,088	290,306
Other liabilities	24	23,249	28,128
Total liabilities		23,797,120	23,095,800
Shareholders' equity			
Share capital	25	1,650,000	1,650,000
Legal reserve fund		330,000	303,774
General risk reserve		276,149	227,284
Retained earnings (deficit)		16,036	28,037
Total shareholders' equity		2,272,185	2,209,095
Total liabilities and shareholders' equity		26,069,305	25,304,895

Statement of changes in shareholders' equity							
	Number of shares	Capital	Retained earnings	Hedging reserve	Legal reserve fund	General risk reserve	Total
Balance at 31 December 2001	300	1,650,000	(214,516)	40,255	258,700	303,046	2,037,485
Transfer to legal reserve fund	-	-	(45,074)	-	45,074	-	-
Net profit for the year	-	-	211,865	-	-	-	211,865
General risk reserve - release	-	-	75,762	-	-	(75,762)	-
Movements in hedging reserve	-	-	-	(40,255)	-	-	(40,255)
Balance at 31 December 2002	300	1,650,000	28,037	-	303,774	227,284	2,209,095
Transfer to legal reserve fund	-	-	(26,226)	-	26,226	-	-
Net profit for the year	-	-	63,090	-	-	-	63,090
General risk reserve - transfer to export risk reserve	-	-	(124,627)	-	-	124,627	-
General risk reserve - release	-	-	75,762	-	-	(75,762)	-
Balance at 31 December 2003	300	1,650,000	16,036	-	330,000	276,149	2,272,185

Cash flow statement		
	31 December 2003	31 December 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipt from state subsidy	37,967	284,862
Interest receipts	1,201,127	745,332
Interest payments	(146,608)	(40,209)
Fees and commission receipts	51,522	115,012
Payments relating to pension and insurance funds	(25,138)	(21,552)
Cash payments to employees and suppliers	(130,186)	(364,752)
Income tax paid, including withholding tax	(117,933)	(30,581)
Net foreign exchange income	47,530	2,574
Other income	6,083	314
Operating profit before changes in operating assets	924,364	691,000
(Increase) decrease in operating assets:		
Loans to banks	(1,032,356)	1,398,998
Loans to customers	(1,535,031)	(2,834,070)
Securities	298,395	86,482
Money market placements	623,880	36,248
Other assets	380,854	(174,819)
Increase (decrease) in operating liabilities:		
Deposits from banks	(798,823)	278,014
Amounts owed to customers	(503,735)	29,227
Other, net	(40,316)	392,369
Net cash flows from operating activities	(1,682,768)	(96,551)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment in fixed assets	(8,790)	(8,633)
Net cash flows from investing activities	(8,790)	(8,633)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bonds in issue	2,267,904	973,994
Interest paid on bonds in issue	(998,950)	(958,683)
Net cash flows from financing activities	1,268,954	15,311
NET DECREASE IN CASH AND CASH EQUIVALENTS	(422,604)	(89,873)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	453,922	543,795
CASH AND CASH EQUIVALENTS AT END OF PERIOD (NOTE 34)	31,318	453,922

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

1 / Legal status and principal activities

Česká exportní banka, a.s. ("the Bank") was incorporated in the Czech Republic on 1 March 1995.

The Bank is registered as a joint stock company and is authorised to perform general banking services, which comprise accepting and placing of deposits and accepting current and term accounts in Czech and foreign currency, granting of Czech and foreign currency credits and guarantees, clearing and payment operations, executing foreign exchange transactions in the interbank money market, dealing with securities on its own account. The objective of the Bank is to provide officially supported financing of Czech exports, either through the provision of credit facilities to Czech exporters, foreign importers or their intermediaries in accordance with international rules. In accordance with the Act mentioned below, all export loans granted by the Bank are insured by the Export Guarantee and Insurance Corporation (the "EGAP"), which is a Czech entity fully owned by the Czech state.

Under Act No. 58 Coll. of 14 March 1995, on insuring and financing of exports with state support and on amendment of Act No. 166/1933 of the Supreme Control Office, as amended by latter Acts, as amended by Act No. 60 of 5 March 1998 and by Act No 188 of 28 July 1999 and by Act No 282/2002 of 28 June 2002 ("Act No. 58"), the Bank's liabilities are guaranteed by the Czech Government.

The Bank is subject to the regulatory requirements of the Czech National Bank. These regulations include returns, limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off balance sheet commitments and provisioning to cover credit risk, liquidity, interest rate and foreign currency position.

The registered address of the Bank is
Praha 1, Vodičkova 34, Zip Code 111 21.

2 / Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

a) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Stan-

dards Board ("IASB"). The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities and all derivative contracts.

All amounts are shown in thousands of Czech Crowns unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

b) Net interest income

Net interest income comprises interest income on loans, debt securities, current accounts and deposits, less interest expense on accounts, deposits taken and debt securities recognised on an accrual basis and the effects of fair value hedge accounting.

Interest income and expense are accrued using the effective interest method. Interest on short-term interest bearing receivables and liabilities are accrued on a straight-line basis. The effective interest method is used for all interest receivables and liabilities with original maturity longer than 1 year.

Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

c) Fees and commissions

Fees and commissions comprise fees for banking transactions and advisory services, recognised on an accrual basis. Loan origination fees for loans that are probable of being drawn down are deferred together with related direct costs and recognized as an adjustment to the straight-line yield on the loan.

d) Taxation

The taxation charge is calculated in accordance with Czech regulations and is based on the profits reported in the income statement prepared under Czech accounting regulations after adjustments for tax purposes.

Certain items of income and expense are recognized in different periods for tax and financial reporting purposes. Deferred taxes

are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. The tax effects of these temporary differences are reflected as deferred tax items. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

The principal temporary differences arise from depreciation of property, plant and equipment and intangible assets, loan origination fees deferred together with related direct costs and non-deductible tax provisions.

e) Securities

The Bank classifies securities solely as available-for-sale financial assets or originated loans and receivables (see 2 (g)).

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at settlement date. Otherwise such transactions are treated as derivatives until settlement occurs.

Available-for-sale securities are those financial assets that are not classified as financial assets held for trading, held-to-maturity investments or originated loans and receivables. This portfolio comprises treasury bills and fixed income securities. Initial recognition includes transaction costs. Available-for-sale financial assets are subsequently re-measured at fair value based on quoted prices. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised as they arise in the income statement in 'Trading results'. Interest earned whilst holding available-for-sale securities is accrued on a monthly basis and reported as 'Interest income' in the income statement.

Securities received as collateral under agreements to resell ('reverse repos') are accounted for off-balance sheet. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements (Note 2 (b)).

g) Originated loans to banks and customers and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower at draw down and debt securities that are

purchased at original issuance are categorized as loans originated by the Bank and are carried at amortised cost.

All loans and advances are recognised when cash is advanced to borrowers.

A specific loan loss provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

When a loan is uncollectible, it is written off against the related provision for impairments. Subsequent recoveries are credited to the provision for loan losses in the income statement.

h) Property, plant and equipment and intangible assets

Intangible assets are valued at cost and are amortised over their estimated useful economic life of 3 to 5 years on a straight-line basis.

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation of fixed assets is provided on a straight-line basis over the following estimated economic useful lives:

Motor vehicles.....	4 years
Furniture and fittings.....	4 to 8 years
Office equipment.....	4 years
Small tangibles.....	2 years
Intangibles.....	3 to 5 years

Fixed assets under construction are not depreciated until such time as the relevant assets are completed and put into operational use. Gains and losses on disposal of property, plant and equipment and intangible assets are determined by reference to their net book value and are taken into account in determining 'Operating expense'. Repairs and renewals are charged to the income statement when the expenditure is incurred. Fixed assets are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

i) Leases

For operating leases, lease payments are recognised as an expense in the income statement over the lease term. The Bank did not enter into any finance lease contracts.

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

j) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

k) Debt securities

Debt securities issued by the Bank are stated at their amortised costs using the effective interest rate method with the amortisation being included within "Interest expense" in the income statement. Transaction costs and accumulated fair value revaluations of hedging derivatives designed as cash-flow hedges of forecasted transactions are included in the initial recognition of debt securities.

l) Foreign currency transactions

Transactions denominated in foreign currencies are recorded in the local currency at official exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as an exchange gain or loss within "Trading results" in the Income statement.

m) Income recognition

Interest income and expense, loans origination fees and commissions are recognised on an accrual basis (Note 2 (b)).

n) State subsidy

State subsidy represents subsidies received by the Bank from the state budget in accordance with Act No. 58 to cover the difference between lower lending interest rates and higher borrowing rates and other costs related to subsidised export financing (including provisions for loan losses).

The income on state subsidy is recognized in the accounting period when the loss occurs. As the state subsidy is calculated based on the Czech accounting principles, accruals and deferrals for state subsidy are recognized in other receivables when they are virtually certain. Subsidies repayable to state are recognised as liabilities when their repayment is probable.

o) Derivative instruments and hedging

In the normal course of business the Bank is a party to contracts for derivative financial instruments including interest rate, currency and forward agreements. These are used by the Bank to hedge interest rate risk and currency exposures associated with its assets and liabilities and anticipated future transactions.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

On the date a derivative contract is entered into, the Bank designates certain derivatives as either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge) or (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank's criteria for a derivative instrument to qualify for hedge accounting include:

- (a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- (b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- (c) the hedge is effective on an ongoing basis.

The Bank discontinues hedge accounting if any one of the following occurs:

- (a) the hedging instrument expires, is sold, terminated or exercised; or
- (b) the hedge no longer meets the hedge accounting criteria.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Income statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.

An adjustment to the carrying amount of a hedged financial instrument is amortized to the net profit or loss over the period to maturity when the designated fair value hedge ceases to be effective.

Changes in fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk, are recognised in the hedging reserve in equity. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the income statement.

When the designated cash flow hedge ceases to be effective, the amount recognised in the hedging reserve remains separately in equity until the hedged transaction occurs.

The fair value of derivative instruments held for trading and hedging purposes are disclosed in Note 27.

p) Social security and pension schemes

Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments (see Note 8). The cost of social security payments is charged to the income statement in the same period as the related salary cost. The Bank has no further pension or post retirement commitments.

q) Legal reserve fund

In accordance with the Commercial Code, the Bank is required to create a legal reserve fund from profit or from amounts contributed by shareholders.

The legal reserve fund shall be allocated 5% of profit after tax until the value of 20% of basic capital is achieved. These funds must be used exclusively to cover losses. As at 31 December 2003 the legal reserve fund of the Bank was fully funded.

r) Cash and cash equivalents

Cash includes cash in hand, balances with central banks except obligatory minimum reserves and current accounts with other banks. Treasury bills due to less than 3 months are considered as cash equivalents (Note 34).

s) Segment reporting

The Bank is an institution specialised in financing of Czech export. Its activities incorporate providing loans and related services (current accounts, collateral deposits, payment relations, letters of credit). Trading activities consist primarily of the derivative instruments that did not meet criteria for hedging set down by IAS 39 and results from the Bank's

management of its foreign currency position. (See Income statement and Balance sheet). The Bank does not have any branches nor any representative offices abroad.

The Bank is not internally organised in separate segments, however it provides products and services to different economic environments (geographical segment), which are subject to risk and rewards that are different from those of other segments (Note 3).

t) Contingent commitments and accepted guarantees and collaterals

Acceptances are disclosed as contingent liabilities and commitments.

u) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

v) Changes in accounting policies

In 2003, the Bank reviewed and changed its provisioning policy for impaired loans to customers. Provisions which meet the criteria of objective evidence of impairment for specific financial assets or groups of assets are deducted from the gross balance (Note 2 (g)). Any provision in excess of that amount is presented as a newly established General risk reserve in equity in accordance with IAS 30.

Based on this change, there was an increase in equity of CZK 274 million as at 1 January 2002, CZK 180 million as at 31 December 2002 and decrease in profit after taxation of CZK 94 million in 2002.

The format of the income statement has been amended in order to more fairly reflect the structure of income and expenses. Certain income and expense items for 2002 have been reclassified in line with the 2003 presentation.

w) Recently issued accounting pronouncements

In December 2003 the IASB published improved versions of several existing IAS standards, including standards for financial instruments (IAS 32 and 39). In February 2004 the new IFRS 2 was published. Due to the proximity of the date of publication to the reporting date an analysis of the potential effect on the Bank's future financial position has not been provided. These revised standards must be implemented by the Bank by 1 January 2005.

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

3 / Geographical concentrations of assets, liabilities and off balance sheet items

Concentrations of assets, liabilities and off balance sheet items by the type of economy as at 31 December 2003

	Domestic	European Union and accession countries	Less developed countries	Commonwealth of Independent States	Socialistic economics	Developed countries	Total
Assets							
Cash in hand and balances with central banks	24,238	-	-	-	-	-	24,238
Available for sale securities	227,566	-	-	-	-	255,964	483,530
Receivables from banks, net	8,983,014	52,792	1,880,205	4,246,506	2,071,830	26,852	17,261,199
Receivables from clients, net	2,306,315	-	-	-	-	5,237,291	7,543,606
Other	105,510	640,976	162	9,680	245	159	756,732
Total assets	11,646,643	693,768	1,880,367	4,256,186	2,072,075	5,520,266	26,069,305
Guarantees and undrawn loan commitments							
Guarantees and undrawn loan commitments	4,345,621	-	203,129	793,875	3,387,957	672,901	9,403,483
Liabilities							
Term deposits from banks	140,217	3,453,035	-	146,296	-	-	3,739,548
Amounts owed to customers	915,308	-	-	-	-	-	915,308
Debt securities	5,672,589	13,000,669	-	-	-	-	18,673,258
Other liabilities	259,763	209,243	-	-	-	-	469,006
Total liabilities	6,987,877	16,662,947	-	146,296	-	-	23,797,120
Received guarantees and insurance	41,069,652	4,094,451	1,945,447	1,744,420	-	5,712,908	54,566,878

Concentrations of assets, liabilities and off balance sheet items by the type of economy as at 31 December 2002

	Domestic	European Union and accession countries	Less developed countries	Commonwealth of Independent States	Socialistic economics	Developed countries	Total
Assets							
Cash in hand and balances with central banks	32,630	-	-	-	-	-	32,630
Available for sale securities	487,317	-	-	-	-	300,775	788,092
Receivables from banks, net	11,444,742	290,772	2,118,401	3,266,245	123,737	27,137	17,271,034
Receivables from clients, net	2,299,362	-	-	-	-	3,724,170	6,023,532
Other	107,756	1,079,611	517	454	471	798	1,189,607
Total assets	14,371,807	1,370,383	2,118,918	3,266,699	124,208	4,052,880	25,304,895
Guarantees and undrawn loan commitments	7,127,837		517,824	2,452,664	6,286,942	3,167,242	19,552,509
Liabilities							
Term deposits from banks	688,256	3,730,554	-	101,235	-	-	4,520,045
Amounts owed to customers	1,419,083	-	-	-	-	-	1,419,083
Debt securities	5,671,377	10,733,977	-	-	-	-	16,405,354
Other liabilities	332,365	418,953	-	-	-	-	751,318
Total liabilities	8,111,081	14,883,484	0	101,235	0	0	23,095,800
Received guarantees and insurance	50,588,723	3,704,982	2,449,507	2,465,645	-	6,925,485	66,134,342

4 / Interest income and expense

Interest income and expense comprise:

	31 December 2003	31 December 2002
Interest income		
- on loans to banks	773,611	764,164
- on money market placements with banks	40,942	113,229
- on loans to customers	397,530	251,287
- on securities	26,703	36,050
- on hedging	(108,795)	(441,691)
	1,129,991	723,039
Interest expense		
- on term deposits from banks	(98,827)	(99,756)
- on amounts owed to customers	(5,419)	(13,001)
- on debt securities	(998,590)	(1,032,955)
- on hedging	(61,009)	472,860
	(1,163,845)	(672,852)
Net interest income	(33,854)	50,187

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

5 / Net fees and commissions

Fees and commissions comprise:

	31 December 2003	31 December 2002
Income from fees and commissions:		
- on operations with customers	60,861	105,841
- on operations with banks	13,544	19,333
Total income from fees and commissions	74,405	125,174
Expenses from fees and commissions:		
- on operations with banks	(7,150)	(8,024)
- other	(17,093)	(6,790)
Total expense from fees and commissions	(24,243)	(14,814)
Net fees and commissions	50,162	110,360

6 / Trading results, net

Trading results, net, comprises:

	31 December 2003	31 December 2002
Net realised and unrealised gains and losses on interest rate swaps, foreign exchange transactions and forward rate agreements held for trading	596,320	927,522
Net gain/(loss) from foreign currency translation	(420,932)	(924,017)
Net gain/(loss) from available for sale securities	(4,924)	4,451
Trading results, net	170,464	7,956

7 / State subsidy and other income

	31 December 2003	31 December 2002
State subsidy	63,003	301,012
Other income	6,083	314

8 / Operating expenses

Operating expenses comprise:

	31 December 2003	31 December 2002
Salaries	(61,439)	(58,016)
Social security costs	(26,333)	(22,529)
Rent	(14,484)	(14,402)
Administrative expense	(34,750)	(36,900)
Amortisation and depreciation (Note 16, 17)	(21,485)	(16,972)
Other	(26,039)	(20,957)
	(184,530)	(169,776)
Average number of employees	125	122

9 / Provisions for loan losses, guarantees and credit commitments

The structure of provisions for loan losses was as follows:

	31 December 2003	31 December 2002
Doubtful debt expense	(13,979)	(26,242)
Income from written off bad debts	13,734	12,959
Release of specific provisions	407	-
Foreign exchange impact	(3,768)	9,555
	(3,606)	(3,728)

The movement in provisions for loan losses was as follows:

	Loan loss provisions
31 December 2001	78,145
Creation	26,242
Release for written off bad debts	(12,959)
Foreign exchange impact	(9,555)
31 December 2002	81,873
Creation	13,979
Release for written off bad debts	(2,040)
Release for redundancy	(407)
Foreign exchange impact	3,768
31 December 2003	97,173

The Bank did not set aside any specific provisions to guarantees and credit commitments in 2002 and 2003.

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

10 / Taxation

Corporate income tax is calculated in accordance with Czech tax regulations at the rate of 31% in 2003 and 2002. The corporate income tax rate for 2004 will be 28%, for 2005 26% and for 2006 24%.

	31 December 2003	31 December 2002
Current tax	50,375	65,159
Deferred tax	(45,743)	19,301
	4,632	84,460

A reconciliation of expected income tax expense:

	31 December 2003	31 December 2002
Net profit before taxation	67,722	296,325
Statutory income tax rate	31%	31%
"Expected" taxation at statutory income tax rate	20,994	91,861
Add (deduct) tax effect of:		
Non-taxable revenues	(25,711)	(6,593)
Non-deductible expenses	8,727	3,693
Decrease in tax rates	(2,946)	-
Other	3,568	(4,501)
Taxation	4,632	84,460
Effective tax rate	7%	29%

Deferred taxes, net

Deferred taxes, net is comprised of the following:

	31 December 2003	31 December 2002
Deferred Tax Assets:		
Accrued management fees	39,180	25,163
Total deferred tax assets	39,180	25,163
Deferred Tax Liabilities:		
Difference between property, plant and equipment per book and tax	(568)	(1,373)
General credit provision - release	(40,911)	(70,458)
Total deferred tax liabilities	(41,479)	(71,831)
Total deferred tax liability, net	(2,299)	(46,668)

Tax liability

	31 December 2003	31 December 2002
Current tax liability	6,468	41,619
Deferred tax liability	2,299	46,668
Total tax liability	8,767	88,287

11 / Cash in hand and balances with the central bank

Cash in hand and balances with the central bank comprise:

	31 December 2003	31 December 2002
Other balances with the central bank	12,855	7,731
Cash in hand	3	140
Cash and cash equivalents (Note 34)	12,858	7,871
Obligatory minimum reserves with the central bank	11,380	24,759
	24,238	32,630

Obligatory minimum reserves maintained under Czech National Bank regulations are not available for use in the Bank's day to day operations.

12 / Money market placements with banks

Money market placements with banks as at 31 December 2003 and 2002, respectively, had remaining maturities of less than one year.

13 / Available for sale securities

Available for sale securities comprises:

	31 December 2003	31 December 2002
Treasury bills	255,964	509,178
Bonds issued by public bodies	227,566	278,914
	483,530	788,092

Treasury bills of CZK 420,478,000 as at 31 December 2002 had original maturity within 3 months (Note 34).

14 / Originated loans to banks, net

Originated loans to banks, net comprise:

	31 December 2003	31 December 2002
Gross originated loans	15,026,110	13,986,194
Less - specific provision for loan losses	-	(403)
	15,026,110	13,985,791

15 / Originated loans to customers, net

Originated loans to customers comprise:

	31 December 2003	31 December 2002
Gross originated loans and advances	7,215,556	5,972,726
Debt securities purchased at original issuance	425,223	132,276
Less - specific provision for loan losses	(97,173)	(81,470)
	7,543,606	6,023,532

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

16 / Property, plant and equipment, net

The movement during 2003 and 2002 was as follows:

	Motor vehicles	Furniture and fittings	Office equipment	Tangibles under construction	Small tangibles	Total
Cost						
1 January 2002	4,829	655	52,920	659	16,013	75,076
Additions	8	48	2,662	2,719	695	6,132
Disposals	(9)	-	(10,661)	(3,270)	(265)	(14,205)
31 December 2002	4,828	703	44,921	108	16,443	67,003
Additions	-	-	2,771	5,050	2,208	10,029
Disposals	-	-	(3,393)	(4,993)	(181)	(8,567)
31 December 2003	4,828	703	44,299	165	18,470	68,465
Accumulated amortisation						
1 January 2002	2,710	222	37,706	-	16,013	56,651
Additions	966	64	7,899	-	394	9,323
Disposals	(9)	-	(10,661)	-	(265)	(10,935)
31 December 2002	3,667	286	34,944	-	16,142	55,039
Additions	838	60	5,258	-	1,405	7,561
Disposals	-	-	(3,394)	-	(181)	(3,575)
31 December 2003	4,505	346	36,808	-	17,366	59,025
Net book value						
31 December 2002	1,161	417	9,977	108	301	11,964
31 December 2003	323	357	7,491	165	1,104	9,440

17 / Intangible assets, net

The movement during 2003 and 2002 was as follows:

	Software	Software under development	Total
Cost			
1 January 2002	15,580	43,991	59,571
Additions	49,917	5,926	55,843
Disposals	(24)	(49,917)	(49,941)
31 December 2002	65,473	-	65,473
Additions	3,312	3,773	7,085
Disposals	-	(3,317)	(3,317)
31 December 2003	68,785	456	69,241
Accumulated depreciation			
1 January 2002	8,515	-	8,515
Additions	7,801	-	7,801
Disposals	(21)	-	(21)
31 December 2002	16,295	-	16,295
Additions	13,939	-	13,939
Disposals	-	-	-
31 December 2003	30,234	-	30,234
Net book value			
31 December 2002	49,178	-	49,178
31 December 2003	38,551	456	39,007

Additions to software mainly comprise a new information system put in use in 2002.

18 / Prepayments and accrued income

Prepayments and accrued income comprise:

	31 December 2003	31 December 2002
Accrued income	4,245	2,312
Prepayments	953	2,645
	5,198	4,957

19 / Other assets

Other assets comprise:

	31 December 2003	31 December 2002
State subsidy receivable	-	37,967
Advances granted	2,659	2,709
Insurance premium receivable	732	292
Other receivables	13,792	3,171
	17,183	44,139

20 / Term deposits from banks

Term deposits from banks are repayable, according to remaining maturity as disclosed in Note 32.

21 / Amounts owed to customers

Amounts owed to customers comprise:

	31 December 2003	31 December 2002
Current accounts	392,787	864,801
Term deposits	175,228	267,242
Escrow accounts	347,293	287,040
	915,308	1,419,083

Escrow accounts are deposits held as collateral for loans and guarantees granted by the Bank on behalf of its clients.

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

22 / Debt securities

Debt securities issued comprise:

Issue date	Currency	Face value	Initial	Interest discount	Maturity rate	31 December 2003	31 December 2002
28 May 1997	USD	250 000	1,500.0	7.0%	28 May 2002	-	-
11 July 2000	CZK	5,500,000	11,550.0	6.95%	11 July 2010	5,672,589	5,671,378
24 May 2002	USD	350,000	696.5	5.75%	24 May 2009	9,153,391	10,733,976
5 November 2003	USD	150,000	537.0	3.75%	6 November 2008	3,847,278	-
Total						18,673,258	16,405,354

Bonds issued on 28 May 1997 were redeemed at their principal amount on 28 May 2002 and replaced by a new bond issue as at 24 May 2002.

Carrying value of bonds issued in 2002 includes the total fair value revaluation gain of hedging derivative instruments designated as a cash-flow hedge of a forecasted bonds issue of CZK 153,060,000 accumulated at the initial recognition of the bonds.

All debt securities are carried at amortised costs using the effective interest rate method.

23 / Provisions, accruals and deferred income

Provisions, accruals and deferred income comprise:

	31 December 2003	31 December 2002
Provision for social expenses	9,315	8,403
Deferred income	590	700
Accrued state subsidy payment	215,598	278,601
Other	2,585	2,602
	228,088	290,306

24 / Other liabilities

Other liabilities comprise:

	31 December 2003	31 December 2002
Insurance payable	9,525	-
Other accounts payable	3,893	4,890
Wages and social security	6,136	5,229
Other	3,695	18,009
	23,249	28,128

25 / Shareholders equity

Share capital comprises 150 shares of CZK 10,000,000 each and 150 shares of CZK 1,000,000 each, authorised and outstanding, fully paid up. All shares have equal voting rights in accordance with their nominal value.

Under Act No. 58 of 14 March 1995, at least 2/3 of the share capital must be owned by the Czech state. The state's share rights are executed by four ministries. The remaining part of shares are held by EGAP.

26 / Related parties

The Bank maintains a current account of CZK 11,391,000 (2002: CZK 8,335,000) for EGAP, which is a shareholder. Liabilities to EGAP represented CZK 9,525,000 (2002: CZK nil) representing the insurance payable from the loan agreement where the Bank is directly insured.

Rent expense, telephone charges and other services costs paid to EGAP in 2003 totalled CZK 17,925,000 (2002: CZK 17,431,000).

In accordance with the Czech legislation, all export loans granted by the Bank are insured by EGAP.

27 / Derivative financial instruments

In the normal course of business the Bank enters into derivative financial instrument transactions solely for the purpose to hedge its liquidity, interest and foreign currency risks. None of these transactions are concluded for speculation purposes - i.e. for the purpose of generating profit from short-term fluctuations in foreign exchange rates and interest rates.

The Bank treats as hedges only those contracts where it has the ability to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met. Certain derivative transactions, while providing effective economic hedges under the Bank's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading and the gain and losses are included within "Trading result"

The following tables set out fair values of derivative financial instruments categorised as held for trading and hedging.

	Fair value		Fair value	
	31 December 2003 Assets	31 December 2003 Liabilities	31 December 2002 Assets	31 December 2002 Liabilities
Derivative financial instruments held for hedging	-	-	-	(330,744)
Derivative financial instruments held for trading	685,904	(208,902)	1,079,369	(13,853)
Total	685,904	(208,902)	1,079,369	(344,597)

Derivative financial instruments designated as held for hedging:

	Notional value			Fair value
	31 December 2002 Assets	31 December 2002 Liabilities	31 December 2002 Positive	31 December 2002 Negative
Interest rate instruments	Type of hedging			
Interest rate swaps	Fair value of loans	4,521,150	4,521,150	-
Total		4,521,150	4,521,150	-

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

Derivative financial instruments designated as held for trading derivatives:

	Notional value			Fair value
	31 December 2002 Assets	31 December 2002 Liabilities	31 December 2002 Positive	31 December 2002 Negative
Interest rate instruments				
Interest rate swap	4,074,935	4,074,935	-	(208,902)
Total	4,074,935	4,074,935	-	(208,902)
Foreign currency instruments				
Cross currency interest rate swaps	5,500,000	4,860,750	638,500	-
Total	7,321,596	6,634,156	685,904	-
Total	11,396,531	10,709,091	685,904	(208,902)

	Notional value			Fair value
	31 December 2002 Assets	31 December 2002 Liabilities	31 December 2002 Positive	31 December 2002 Negative
Interest rate instruments				
Interest rate swap	284,400	284,400	-	(13,853)
Total	284,400	284,400	-	(13,853)
Foreign currency instruments				
Cross currency interest rate swaps	5,500,000	4,521,150	1,079,369	-
Total	5,500,000	4,521,150	1,079,369	-
Total	5,784,400	4,805,550	1,079,369	(13,853)

Derivative financial instruments designated as held for trading derivatives at nominal values per remaining maturity.

28 / Credit risk

The Bank takes on exposure to credit risk which is the risk that counterparty will be unable to pay amounts in full when due. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed by insurance of loans or obtaining collateral and guarantees. The extent of the Bank's credit exposure is represented by the aggregate balance of originated loans, securities, current accounts, money market placements and other receivables.

Credit exposure or replacement cost of derivative financial instruments represents the Bank's credit exposure from contracts with a positive fair value, that is, it indicates the

estimated maximum potential losses of the Bank in the event that counterparties fail to perform their obligations. It is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to generally applicable methodology using the current exposure method and involves the fair market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of nominal value, which indicates the potential change in fair market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity.

As of 31 December 2003, the Bank has a potential credit exposure of CZK 685,905,000 in the event of non-performance

by counterparties on its derivative financial instruments. This amount represents the gross replacement cost at market rates as of 31 December 2003 of all outstanding agreements in the event of all counterparties defaulting and does not allow for the effect of netting arrangements.

The Bank is selective in its choice of counterparties and sets limits on transactions with its customers. As such, the Bank considers that the actual credit risk associated with financial derivatives is substantially lower than the exposure calculated pursuant to credit equivalents.

29 / Estimated fair value information

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments (especially originated loans and derivative financial instruments). In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate.

Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot necessarily be realised in a current sale of the financial instrument.

The following tables summarise the carrying values and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value where fair value differs from carrying value:

	31 December 2003 Carrying value	31 December 2003 Fair value	31 December 2002 Carrying value	31 December 2002 Fair value
Financial assets				
Originated loans to banks, net	15,026,110	16,283,778	13,985,789	14,724,868
Originated loans to customers, net	7,543,606	9,193,784	6,023,532	7,548,812
Financial liabilities				
Debt securities	18,673,258	20,640,668	16,405,354	18,893,819

Fair value of other financial assets and liabilities approximates their carrying value.

30 / Interest rate risk exposure

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk. The tables below provide information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that

reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the directors of the Bank to manage the exposure of the Bank to fluctuations in net interest income arising from changes in interest rates by the degree of repricing mismatch in the balance sheet. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "maturity undefined" category.

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

Interest rate risk exposure as at 31 December 2003

	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash in hand and balances with central banks	12,858	-	-	-	-	11,380	24,238
Current accounts with other banks	18,460	-	-	-	-	-	18,460
Money market placements with banks	1,613,843	301,065	301,721	-	-	-	2,216,629
Available for sale securities	-	2,982	283,001	186,266	11,281	-	483,530
Derivative financial instruments	-	-	-	-	-	685,904	685,904
Originated loans to banks, net	770,698	746,307	3,502,793	8,509,888	1,496,424	-	15,026,110
Originated loans to customers, net	676,417	282,056	460,105	1,696,938	3,140,454	1,287,636	7,543,606
Fixed assets	-	-	-	-	-	48,447	48,447
Prepayments and accrued income	-	296	862	-	2,270	1,770	5,198
Other assets	-	-	-	-	-	17,183	17,183
Total assets	3,092,276	1,332,706	4,548,482	10,393,092	4,650,429	2,052,320	26,069,305
Term deposits from banks	764,794	-	1,306,804	1,251,072	416,878	-	3,739,548
Derivative financial instruments	-	-	-	-	-	208,902	208,902
Amounts owed to customers	585,337	329,971	-	-	-	-	915,308
Debt securities	-	-	514,160	3,824,831	14,334,267	-	18,673,258
Tax liabilities	-	-	8,767	-	-	-	8,767
Provisions, accruals and deferred income	-	-	341	-	-	227,747	228,088
Other liabilities	-	-	1,967	-	-	21,282	23,249
Total liabilities	1,350,131	329,971	1,832,039	5,075,903	14,751,145	457,931	23,797,120
Net assets interest rate risk	1,742,145	1,002,735	2,716,443	5,317,189	(10,100,716)	1,594,389	2,272,185
Net assets cumulative interest rate risk	1,742,145	2,744,880	5,461,323	10,778,512	677,796	2,272,185	-
Loan commitments - fixed interest rate	15,965	5,234	287,379	4,992,247	331,499	-	5,632,324
Swaps	-	(226,835)	(2,565,400)	2,792,235	-	-	-
Net interest rate risk	1,758,110	781,134	438,422	13,101,671	(9,769,217)	1,594,389	7,904,509
Net cumulative interest rate risk	1,758,110	2,539,244	2,977,666	16,079,337	6,310,120	7,904,509	-

Interest rate risk exposure as at 31 December 2002

	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash in hand and balances with central banks	7,871	-	-	-	-	24,759	32,630
Current accounts with other banks	25,573	-	-	-	-	-	25,573
Money market placements with banks	2,454,293	402,977	402,400	-	-	-	3,259,670
Available for sale securities	116,398	353,472	199,100	107,507	11,615	-	788,092
Derivative financial instruments	-	-	-	-	-	1,079,369	1,079,369
Originated loans to banks, net	372,611	681,675	4,570,260	6,300,827	2,039,622	20,795	13,985,791
Originated loans to customers, net	-	1,225,724	713,290	2,058,749	2,009,029	16,741	6,023,532
Fixed assets	-	-	-	-	-	61,142	61,142
Prepayments and accrued income	-	-	-	-	-	4,957	4,957
Other assets	-	-	-	-	-	44,139	44,139
Total assets	2,976,746	2,663,848	5,885,050	8,467,083	4,060,266	1,251,902	25,304,895
Term deposits from banks	2,991,708	-	21,287	1,507,050	-	-	4,520,045
Derivative financial instruments	-	-	-	-	-	344,597	344,597
Amounts owed to customers	1,168,565	250,518	-	-	-	-	1,419,083
Debt securities	-	-	546,144	-	15,859,210	-	16,405,354
Tax liabilities	-	-	-	-	-	88,287	88,287
Provisions, accruals and deferred income	-	-	-	-	-	290,306	290,306
Other liabilities	-	-	-	-	-	28,128	28,128
Total liabilities	4,160,273	250,518	567,431	1,507,050	15,859,210	751,318	23,095,800
Net assets interest rate risk	(1,183,527)	2,413,330	5,317,619	6,960,033	(11,798,944)	500,584	2,209,095
Net assets cumulative interest rate risk	(1,183,527)	1,229,803	6,547,422	13,507,455	1,708,511	2,209,095	-
Loan commitments - fixed interest rate	18,758	11,084	51,044	6,472,799	6,915,550	-	13,469,235
Swaps	-	252,800	4,489,550	(4,742,350)	-	-	-
Net interest rate risk	(1,164,769)	2,677,214	9,858,213	8,690,482	(4,883,394)	500,584	15,678,330
Net cumulative interest rate risk	(1,164,769)	1,512,445	11,370,658	20,061,140	15,177,746	15,678,330	-

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

Average interest rates in the year 2003

Assets	Average rate	Liabilities	Average rate
Cash and balances with CNB	1,83%	Amounts owed to financial institutions	1,91%
Treasury bills and other bills eligible for refinancing	1,78%	Amounts owed to customers	0,87%
Originated loans to banks	4,27%	Debt securities	6,17%
Originated loans to customers	6,13%		
Interest bearing securities	4,46%		
Total interest bearing assets	4,72%	Total interest bearing liabilities	5,08%

31 / Net currency position

The Bank's balance sheet includes assets and liabilities denominated in foreign currencies. The tables below provide an analysis of the Bank's currency exposures at 31 December 2003 and 2002.

Bank's currency exposures at 31 December 2003

	Czech Crowns	US Dollars	Euro	Other currencies	Total
Assets					
Cash and balances with central bank	24,238	-	-	-	24,238
Current accounts with banks	1,073	14,397	912	2,078	18,460
Money market placements with banks	873,799	1,166,859	175,971	-	2,216,629
Available for sale securities	227,566	255,964	-	-	483,530
Derivative financial instruments	686,482	-	(578)	-	685,904
Originated loans to banks, net	711,118	11,670,066	2,644,926	-	15,026,110
Originated loans to customers, net	448,027	5,883,939	1,211,640	-	7,543,606
Property, plant and equipment	9,440	-	-	-	9,440
Intangible assets	39,007	-	-	-	39,007
Prepayments and accrued income	1,770	3,289	139	-	5,198
Other assets	6,243	10,936	4	-	17,183
Total assets	3,028,763	19,005,450	4,033,014	2,078	26,069,305
Liabilities					
Term deposits from banks	-	3,589,038	150,510	-	3,739,548
Derivative financial instruments	-	197,595	11,307	-	208,902
Amounts owed to customers	11,585	566,985	336,727	11	915,308
Debt securities	5,672,589	13,000,669	-	-	18,673,258
Tax liabilities	8,767	-	-	-	8,767
Provisions, accruals and deferred income	227,157	667	264	-	228,088
Shareholder's equity	2,272,185	-	-	-	2,272,185
Other liabilities	21,540	1,707	2	-	23,249
Total liabilities and shareholder's equity	8,213,823	17,356,661	498,810	11	26,069,305
Net assets	(5,185,060)	1,648,789	3,534,204	2,067	-
Currency forward	6,025,394	(1,790,779)	(3,547,050)	-	687,565
Net currency position at 31 December 2003	840,334	(141,990)	(12,846)	2,067	687,565

Bank's currency exposures at 31 December 2002

	Czech Crowns	US Dollars	Euro	Other currencies	Total
Assets					
Cash and balances with central bank	32,630	-	-	-	32,630
Current accounts with banks	2,787	9,760	9,409	3,617	25,573
Money market placements with banks	1,628,379	1,371,197	260,094	-	3,259,670
Available for sale securities	487,317	300,775	-	-	788,092
Derivative financial instruments	1,153,365	(73,996)	-	-	1,079,369
Originated loans to others banks	285,487	12,577,789	1,122,918	-	13,986,194
Less: specific provision	-	-	(403)	-	(403)
Originated loans to clients	183,157	4,748,558	1,173,287	-	6,105,002
Less: specific provision	(1,715)	(46,377)	(33,378)	-	(81,470)
Property, plant and equipment	11,964	-	-	-	11,964
Intangible assets	49,178	-	-	-	49,178
Prepayments and accrued income	2,403	2,118	436	-	4,957
Other assets	44,139	-	-	-	44,139
Total assets	3,879,091	18,889,824	2,532,363	3,617	25,304,895
Liabilities					
Term deposits from banks	-	2,364,118	2,155,927	-	4,520,045
Derivative financial instruments	-	330,744	13,853	-	344,597
Amounts owed to customers	8,357	1,028,528	382,198	-	1,419,083
Debt securities	5,671,377	10,733,977	-	-	16,405,354
Tax liabilities	88,287	-	-	-	88,287
Provisions, accruals and deferred income	289,296	627	383	-	290,306
Shareholders' equity	2,209,095	-	-	-	2,209,095
Other liabilities	26,239	1,885	4	-	28,128
Total liabilities and shareholders' equity	8,292,651	14,459,879	2,552,365	-	25,304,895
Net assets	(4,413,560)	4,429,945	(20,002)	3,617	-
Currency forward	5,500,000	(4,538,463)	17,382	-	978,919
Net currency position at 31 December 2002	1,086,440	(108,518)	(2,620)	3,617	978,919

32 / Liquidity Risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with guidelines laid down by the Czech National Bank.

The tables below provide an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on

the remaining period from the balance sheet date to the contractual maturity dates. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities the earliest possible repayment date is shown while for assets it is the latest possible repayment date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "maturity undefined" category.

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

Liquidity risk at 31 December 2003

	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash in hand	3	-	-	-	-	-	3
Balances with central banks	24,235	-	-	-	-	-	24,235
Current accounts with banks	18,460	-	-	-	-	-	18,460
Money market placements with banks	1,613,843	301,065	301,721	-	-	-	2,216,629
Available for sale securities	-	2,982	283,001	186,266	11,281	-	483,530
Derivative financial instruments	-	-	-	-	-	685,904	685,904
Originated loans to banks, net	770,698	711,725	1,587,671	10,459,592	1,496,424	-	15,026,110
Originated loans to customers, net	320,468	257,638	389,400	2,148,010	3,140,454	1,287,636	7,543,606
Property, plant and equipment	-	-	-	-	-	9,440	9,440
Intangible assets	-	-	-	-	-	39,007	39,007
Prepayments and accrued income	-	296	862	-	2,270	1,770	5,198
Other assets	-	-	-	-	-	17,183	17,183
Total assets	2,747,707	1,273,706	2,562,655	12,793,868	4,650,429	2,040,940	26,069,305
Liabilities and shareholder's equity							
Term deposits from banks	764,794	-	1,306,804	1,251,072	416,878	-	3,739,548
Derivative financial instruments	-	-	-	-	-	208,902	208,902
Amounts owed to customers	525,176	46,325	61,563	205,367	76,877	-	915,308
Debt securities	-	-	514,160	3,824,831	14,334,267	-	18,673,258
Tax liabilities	-	-	8,767	-	-	-	8,767
Provisions, accruals and deferred income	-	-	341	-	-	227,747	228,088
Other liabilities	-	-	1,975	-	-	21,274	23,249
Shareholders' equity	-	-	-	-	-	2,272,185	2,272,185
Total liabilities and shareholder's equity	1,289,970	46,325	1,893,610	5,281,270	14,828,022	2,730,108	26,069,305
Liquidity risk	1,457,737	1,227,381	669,045	7,512,598	(10,177,593)	(689,168)	-
Cumulative liquidity risk	1,457,737	2,685,118	3,354,163	10,866,761	689,168	-	-

Liquidity risk at 31 December 2002

	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash in hand	140	-	-	-	-	-	140
Balances with central banks	32,490	-	-	-	-	-	32,490
Current accounts with banks	25,573	-	-	-	-	-	25,573
Money market placements with banks	2,454,293	402,977	402,400	-	-	-	3,259,670
Available for sale securities	116,398	353,472	199,100	107,507	11,615	-	788,092
Derivative financial instruments	-	-	-	-	-	1,079,369	1,079,369
Originated loans to banks, net	372,611	513,060	1,808,033	8,658,991	2,612,300	20,796	13,985,791
Originated loans to customers, net	748,244	99,238	788,020	2,362,260	2,009,028	16,742	6,023,532
Property, plant and equipment	-	-	-	-	-	11,964	11,964
Intangible assets	-	-	-	-	-	49,178	49,178
Prepayments and accrued income	-	-	-	-	-	4,957	4,957
Other assets	-	-	-	-	-	44,139	44,139
Total assets	3,749,749	1,368,747	3,197,553	11,128,758	4,632,943	1,227,145	25,304,895
Liabilities and shareholder's equity							
Term deposits from banks	2,991,708	-	21,287	1,507,050	-	-	4,520,045
Derivative financial instruments	-	-	-	-	-	344,597	344,597
Amounts owed to customers	1,144,581	17,659	41,280	167,189	48,374	-	1,419,083
Debt securities	-	-	546,144	-	15,859,210	-	16,405,354
Tax liabilities	-	-	88,287	-	-	-	88,287
Provisions, accruals and deferred income	-	-	-	-	-	290,306	290,306
Other liabilities	-	-	-	-	-	28,128	28,128
Shareholders' equity	-	-	-	-	-	2,209,095	2,209,095
Total liabilities and shareholder's equity	4,136,289	17,659	696,998	1,674,239	15,907,584	2,872,126	25,304,895
Liquidity risk	(386,540)	1,351,088	2,500,555	9,454,519	(11,274,641)	(1,644,981)	-
Cumulative liquidity risk	(386,540)	964,548	3,465,103	12,919,622	1,644,981	-	-

Notes to the financial statements for the year ended 31 December 2003 (in CZK'000)

33 / Financial commitments, contingencies, guarantees and collaterals

Financial commitments and contingencies comprise:

	31 December 2003	31 December 2002
Guarantees granted	2,952,243	4,773,090
Undrawn loan commitments	6,451,240	14,779,419
	9,403,483	19,552,509

For outstanding derivative positions see Note 27.

Guarantees and collaterals accepted comprise:

	31 December 2003	31 December 2002
Guarantees received		
Payment guarantees	9,465,744	11,975,300
Non-payment guarantees	339,767	812,519
Insurance with state subsidy	40,581,109	15,606,185
Insurance without state subsidy	332,158	34,726,238
Commitments received	3,848,100	3,014,100
	54,566,878	66,134,342
Collateral accepted		
Cash	583,991	496,417
Securities	3,115,516	4,652,701
Other	3,155,068	4,219,011
Securities accepted in reverse repo transactions	696,777	284,974
	7,551,352	9,653,103

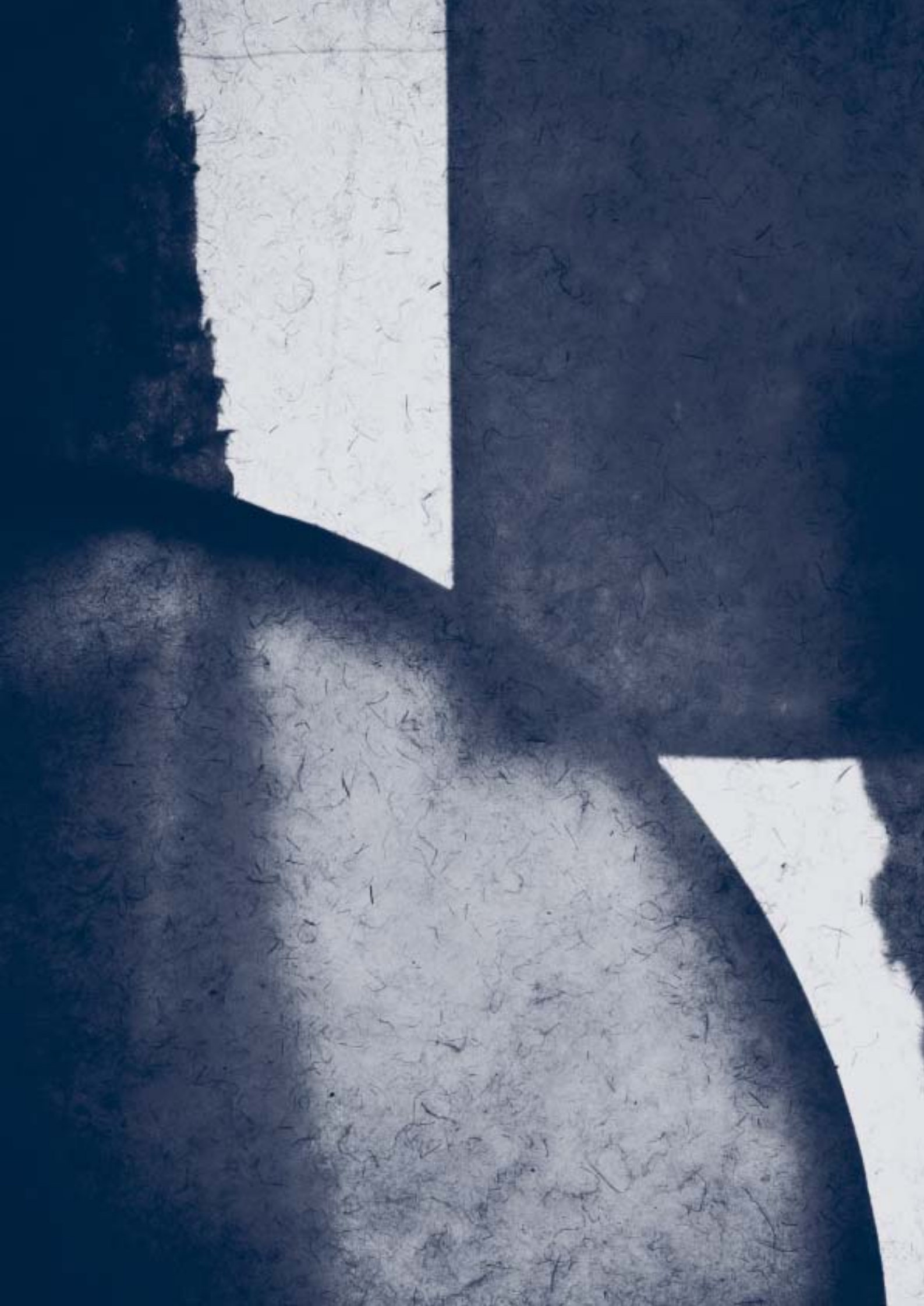
Insurance covers also certain guaranteed amounts of loans and undrawn commitments.

34 / Analysis of the balances of cash and cash equivalents as shown in the cash flow statement

	31 December 2003	31 December 2002	Change in Year
Cash in hand and balances with the central bank (Note 11)	12,858	7,871	4,987
Current accounts with other banks	18,460	25,573	(7,113)
Treasury bills (Note 12)	-	420,478	(420,478)
Cash and cash equivalents	31,318	453,922	(422,604)

35 / Post balance sheet events

On 13 February 2004 the shareholders made a decision to increase the share capital by CZK 100,000,000. The amount was paid-up on 12 March 2004



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