

**ČESKÁ EXPORTNÍ BANKA, A.S.**

**INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS PREPARED  
IN ACCORDANCE WITH INTERNATIONAL FINANCIAL  
REPORTING STANDARDS AS ADOPTED  
BY THE EUROPEAN UNION**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**Translation note**

This version of our report is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

# ČESKÁ EXPORTNÍ BANKA, A.S.

## FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

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**ČESKÁ EXPORTNÍ BANKA, A.S.**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2008**

**INCOME STATEMENT**

	Note	Year ended 31 December	
		2008	2007
		CZK'm	Restated CZK'm
Interest and similar income	6	1 687	1 380
Interest expense and similar charges	6	<u>(1 554)</u>	<u>(1 347)</u>
<b>Net interest income</b>	6	<b>133</b>	<b>33</b>
Fee and commission income	7	35	37
Fee and commission expense	7	<u>(10)</u>	<u>(10)</u>
<b>Net fee and commission income</b>	7	<b>25</b>	<b>27</b>
Realized gains from financial assets and liabilities not carried at fair value through profit and loss	8	287	242
Net trading income/(expense)	9	(4)	93
Foreign exchange differences	10	<u>57</u>	<u>(40)</u>
<b>Operating earnings</b>		<b>340</b>	<b>295</b>
Administrative expenses		(202)	(177)
Other operating expenses		(8)	(2)
Amortisation		(20)	(21)
Additions to provisions		<u>(12)</u>	<u>(5)</u>
<b>Operating costs</b>	11	<b>(242)</b>	<b>(205)</b>
Impairment losses on loans	13	<u>(19)</u>	<u>-</u>
<b>Profit before income tax</b>		<b>237</b>	<b>150</b>
Income tax expense	12	<u>(42)</u>	<u>(70)</u>
<b>Profit for the year</b>		<b>195</b>	<b>80</b>

The notes on pages 7 to 75 are an integral part of these financial statements.

ČESKÁ EXPORTNÍ BANKA, A.S.

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

BALANCE SHEET

	Note	2008 CZK'm	2007 Restated CZK'm
<b>ASSETS</b>			
Cash and balances with central bank	14	442	7
Financial instruments held for trading	16	1 478	1 508
Financial instruments available-for-sale	17	1 285	811
Loans and receivables	15	37 106	28 957
Financial instruments held-to-maturity	17	1 723	2 610
Hedging derivatives with positive fair value	16	61	181
Equipment	19	14	20
Intangible assets	18	7	10
Other assets	20	140	180
Current income tax assets		1	-
Deferred income tax assets	24	236	-
<b>Total assets</b>		<b>42 493</b>	<b>34 284</b>
<b>LIABILITIES</b>			
Financial liabilities held for trading	16	21	-
Financial liabilities held at amortized cost	21	39 246	31 419
Hedging derivatives with negative fair value	16	1 111	76
Other liabilities	22	20	28
Provisions	23	17	5
Current income tax liabilities		-	37
Deferred income tax liabilities	24	-	23
<b>Total liabilities</b>		<b>40 415</b>	<b>31 588</b>
<b>EQUITY</b>			
Share capital	25	2 000	1 850
Revaluation reserve	26	(863)	100
Statutory reserve		370	370
Other special fund		449	339
Retained earnings		122	37
<b>Total equity</b>		<b>2 078</b>	<b>2 696</b>
<b>Total liabilities and equity</b>		<b>42 493</b>	<b>34 284</b>

The notes on pages 7 to 75 are an integral part of these financial statements.

**ČESKÁ EXPORTNÍ BANKA, A.S.**

**FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2008**

**STATEMENT OF CHANGES IN EQUITY**

	Note	Share capital CZK'm	Retained earnings CZK'm	Statutory reserve CZK'm	Export risk reserve CZK'm	Revaluation reserve CZK'm	Total CZK'm
<b>At 1 January 2007</b>		<b>1 850</b>	<b>56</b>	<b>370</b>	<b>240</b>	<b>15</b>	<b>2 531</b>
Change in Available for sale, net of tax	26	-	-	-	-	(5)	(5)
Change in cash flow hedges, net of tax	26	-	-	-	-	90	90
Net profit for the year		-	80	-	-	-	80
Total recognised income/(loss)		-	80	-	-	85	165
Increase of share capital		-	(99)	-	99	-	-
<b>At 31 December 2007 (restated)</b>		<b>1 850</b>	<b>37</b>	<b>370</b>	<b>339</b>	<b>100</b>	<b>2 696</b>
Change in Available for sale, net of tax	26	-	-	-	-	5	5
Change in cash flow hedges, net of tax	26	-	-	-	-	(968)	(968)
Net profit for the year		-	195	-	-	-	195
Total recognised income/(loss)		-	195	-	-	(963)	(768)
Increase of share capital	29	150	-	-	-	-	150
Transfer to export risk reserve		-	(110)	-	110	-	-
<b>At 31 December 2008</b>		<b>2 000</b>	<b>122</b>	<b>370</b>	<b>449</b>	<b>(863)</b>	<b>2 078</b>

The notes on pages 7 to 75 are an integral part of these financial statements.

ČESKÁ EXPORTNÍ BANKA, A.S.

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

CASH FLOW STATEMENT

	Note	2008 CZK'm	2007 CZK'm
<b>Cash flows from operating activities</b>			
Interest received		1 546	1 204
Interest paid		(1 544)	(1 223)
Net fee and commission received		41	58
Net trading and other income		31	(24)
Recoveries on loans previously written off		130	247
Cash payments to employees and suppliers		(212)	(180)
Income tax paid		(97)	(69)
Other taxes paid		(18)	(19)
<b>Net cash used in operating activities before changes in operating assets and liabilities</b>		<b>(123)</b>	<b>(6)</b>
<b>Changes in operating assets and liabilities</b>			
Net decrease in loans to banks		1 922	1 185
Net increase in loans to customers		(8 227)	(9 958)
Net increase in other liabilities		309	396
Net increase in due to banks		2 059	1 725
Net increase in due to customers		558	108
<b>Net cash used in operating activities</b>		<b>(3 502)</b>	<b>(6 550)</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		(20)	(22)
Purchase of securities		(1 669)	(2 617)
Proceeds from matured securities		1 401	743
<b>Net cash used in investing activities</b>		<b>(288)</b>	<b>(1 896)</b>
<b>Cash flows from financing activities</b>			
Receipts from issue of bonds		6 732	8 876
Redemption of issued bonds		(2 832)	-
Repayments from not registered capital contribution	29	-	(150)
Receipts from issue of ordinary shares	29	150	-
Repayments of state subsidy	8	(1)	-
Receipts of state subsidy	8	251	244
<b>Net cash from financing activities</b>		<b>4 300</b>	<b>8 970</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(26)</b>	<b>(7)</b>
<b>Net increase in cash and cash equivalents</b>		<b>484</b>	<b>517</b>
<b>Cash and cash equivalents at beginning of year</b>	28	<b>3 825</b>	<b>3 308</b>
<b>Cash and cash equivalents at end of year</b>	28	<b>4 309</b>	<b>3 825</b>

The notes on pages 7 to 75 are an integral part of these financial statements.

## ČESKÁ EXPORTNÍ BANKA, A.S.

### NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

#### 1 GENERAL INFORMATION

Česká exportní banka, a.s. (“the Bank”) was established on 1 March 1995 and its registered address is Praha 1, Vodičkova 34/701. The Bank does not have any branches either in the Czech Republic or abroad. On 7 December 2008, the Bank received a licence from The Central Bank of the Russian Federation to open the Bank’s representation in Moscow. This licence is valid until 6 February 2011.

The Bank is authorised to perform banking services, which comprise foremost accepting deposits from the public in Czech and foreign currencies, granting credits and guarantees in Czech and foreign currencies, issuing letters of credit, clearing and payment operations, dealing on its own account in foreign exchange transactions, with securities issued by foreign governments and with foreign bonds. The Bank governs its activities including but not limited by law No. 58/1995 Coll., on officially supported insurance and financing exports (“Law No. 58/1995 Coll.”), law No. 21/1992 Coll., on banks and law No. 513/1991 Coll., Commercial Code; at the same time, the Bank is subject to CNB regulatory requirements.

The main objective of the Bank is to provide officially supported financing of Czech exports in accordance with international rules - mainly through the provision of credit facilities and guarantees, while retaining balanced financial management on a long-term basis.

Pursuant to Law No. 58/1995 Coll., the provision of supported financing by the Bank is subject to collateral, unless export credit risk is insured by Exportní garanční a pojišťovací společnost, a.s. (“EGAP”).

According to Act. No. 58/1995 Coll., the Czech state guarantees the obligations of the Bank specified in this Act. The condition for providing support financing is that at least two thirds of the Bank’s share capital is owned by the Czech state. The remaining part is owned by EGAP.

The Czech state exercises its shareholder rights through respective ministries. The Board of Directors of the Bank is composed of 5 members - individuals from the Bank management. The activities of the Board of Directors and business operations are supervised by the Supervisory Board. Two thirds of the Supervisory Board members are elected on the general meeting of shareholders and the remaining one third is elected by the Bank’s employees.

Standard & Poor’s issued an “A” credit rating to the Bank and Moody’s Investor Service issued an “Aa1” credit rating. The Bank’s issued bonds are listed on the Luxembourg Stock Exchange and on the Prague Stock Exchange.

## 2 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

### (a) Basis of presentation

The Bank's financial statements have been prepared as stand-alone financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities and all derivative contracts at fair value.

The preparation of financial statements in conformity with EU IFRS requires the use of certain critical accounting estimates. It also requires that management exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The application of the standards, amendments and interpretations listed below that are effective for the accounting period ending 31 December 2008 did not result in substantial changes to the Bank's accounting policies. The Bank used the possibility to reclassify financial instruments in accordance with the IAS 39 amendment and discloses details about this reclassification in Note 3a).

IFRIC 11—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007); Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options to (a) reclassify a financial asset out of the held-for-trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and to (b) reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments are applicable with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 takes effect only from the date when the reclassification is made. IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

## 2 ACCOUNTING POLICIES (continued)

### (a) Basis of presentation (continued)

The Bank decided not to early adopt the following standards and interpretations, which were already approved by the European Union, but had not been effective for the accounting periods beginning on 1 January 2007:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009) replacing IAS 14. Reporting according Segments. IFRS 8 requires an entity's management to report financial and descriptive information about its operating segments and specifies how an entity should report such information. In relation to this standard, the Bank will evaluate the impact on the financial statements released for year 2009 in disclosure of geographical and sector concentration.

Amendment to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. It is not expected that the amendment will have a material impact on the Bank's consolidated financial statements, because it does not prepare consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The arrangement will be applied if the Bank creates loyalty programmes.

IAS 1 (revised in 2007), Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). This standard newly defines obligatory financial statements for disclosure. The Group expects the revised IAS 1 to have a slight impact on its financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements, because it does not prepare consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (effective for annual periods beginning on or after 1 January 2009). The possibility to assess the investment into a subsidiary company either in the fair value or according to previous regulations will not have an impact on the Bank's financial statements, because it does not prepare consolidated financial statements.

**ČESKÁ EXPORTNÍ BANKA, A.S.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2008**

**2 ACCOUNTING POLICIES (continued)**

**(a) Basis of presentation (continued)**

IAS 23, Borrowing Costs (revised in 2007; effective for annual periods beginning on or after 1 January 2009). The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The change does not have any impact on the methods applied by the Bank.

International accounting standards IAS 1, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 – the changes are mainly improvements of the previous versions (effective from 1 January 2009).

None of above-mentioned changes will require changes of accounting policy or valuation methods in 2009. There will be an immaterial impact on disclosed structure and the form of the statements.

The Bank has also not applied any revised standards and new interpretation that have not been approved by the European Union yet:

IFRIC 12 – Service Concession Arrangements

IFRIC 15 – Agreements for the Construction of Real Estate

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

IAS 27 – Revised – Consolidated and Separate Financial Statements

IFRS 1 – First-time Adoption of International Financial Reporting Standards (Amendment effective from 1 January 2009)

IAS 39 – Financial Instruments: Recognition and Measurement - identification of hedged item;

IFRS 3 - Business Combinations (Effective for business combination with the acquisition date later than the first day of the accounting period beginning 1 July 2009);

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 18 - Transfers of Assets from Customers

Currently, the Bank's management is assessing the impact of application of these interpretations and standards on the Bank's financial statements.

Balances for comparable periods are recognised in these financial statements in accordance with the amended 2007 annual report released on 25 July 2008 (Note 30 of these financial statements).

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

**2 ACCOUNTING POLICIES (continued)**

**(b) Segment reporting**

A segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

A business segment is engaged in providing products or services within a particular sector of economic activities that are subject to risks and returns different from those of segments operating in other sectors of economic activities.

**(c) Foreign currency translation**

Functional and presentation currency

The financial statements are presented in Czech crowns, which is also the Bank's functional currency (i.e. the currency of the primary economic environment where the Bank operates).

Transactions and balances

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing as at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under Net trading income.

The foreign exchange rates for Czech crowns against the main foreign currencies are as follows:

	<u>USD</u>	<u>EUR</u>
31 December 2008	19,346	26,930
31 December 2007	18,078	26,620

**(d) Derivative financial instruments**

In the normal course of business the Bank is a party to contracts for derivative financial instruments, including cross-currency interest rate swaps, interest rate swaps, forward rate agreements ("FRA"), currency swaps and currency forwards. The Bank minimises the impact of interest rate and currency risk by closing the opened positions using hedging instruments in order not to exceed the acceptable level of market risk.

**2 ACCOUNTING POLICIES (continued)**

**(d) Derivative financial instruments (continued)**

The Bank uses derivative financial instruments solely as hedging instruments (both economic and accounting hedging) to hedge opened positions against the interest rate and currency risk and does not conclude the derivatives to gain profit from short-term movements in interest rates and foreign exchange rates. The derivative financial instruments are concluded with counterparties from OECD countries with investment ratings granted by reputable rating agencies or credible domestic counterparties, the rating of which is regularly assessed.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) or based on a valuation technique whose variables include only data from observable markets.

Hedging derivatives accounted under a hedge accounting regime are those derivatives which are in compliance with interest rate risk and currency risk strategy, the hedging terms are documented in the initial phase of hedging relationship and the hedging is effective.

Results from derivatives which are not accounted under the hedge accounting regime (i.e. only economic hedges) are recognised in the income statement under Net trading income.

Fair value hedge

The Bank started to designate certain derivatives as hedges of the fair value of recognised assets or liabilities in 2005 (see Note 16). Changes in the fair value of derivatives that have been designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk (see Note 6).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged interest-bearing financial assets or financial liabilities is amortised to profit or loss over the period to maturity.

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**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2008**

**2 ACCOUNTING POLICIES (continued)**

**(d) Derivative financial instruments (continued)**

Cash flow hedge

For the first time in 2006, the Bank classified a hedging transaction as a cash flow hedge (see Note 16). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement under row Net trading income.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Provided that the terms and conditions of the hedging instrument and the hedged item are the same, the effectiveness during the course of the hedging relationship is prospectively tested as at a balance sheet date by comparing stability of critical terms of the hedging instrument and the hedged item. Should the critical terms of the hedging instrument or the hedged item change, the hedging relationship effectiveness is newly prospectively tested. The retrospective effectiveness is tested on a monthly basis comparing cumulative change in the fair value of hedging instrument with cumulative change in fair value of a hedged item.

**2 ACCOUNTING POLICIES (continued)**

**(e) Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, except for those designated at fair value through profit or loss, are recognised within Interest income and Interest expense in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and payments paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**(f) Fee and commission income**

Fees and commissions, which are not part of the effective interest rate, are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are not likely to be drawn down are recognised as revenue on a time proportion basis.

Advisory and service fees are recognised based on the appropriate service contracts, usually on a time proportionate basis.

**(g) Financial assets**

The Bank classifies its financial assets in the following categories: Financial assets at fair value through profit or loss, Loans and receivables, Available-for-sale securities and Held-to-maturity securities. Financial assets are classified at initial recognition.

**2 ACCOUNTING POLICIES (continued)**

**(g) Financial assets (continued)**

Financial assets at fair value through profit or loss

This category has two sub-categories: assets held for trading, and those designated at fair value through profit or loss at inception. The financial asset is classified as an asset held for trading, provided that:

- the asset was acquired for the purposes of sale in the near future;
- the asset is part of a portfolio of financial instruments managed collectively with evidence of recent trading; or
- the asset is a derivative (except a derivative functioning as a hedge instrument).

At inception, a financial asset is designated as an asset at fair value through profit or loss provided that:

- It eliminates or materially limits incompatibility in valuating or booking that would otherwise occur based on asset valuation or capturing profits or losses generated by such assets on a different basis; or
- The group of financial assets or combination thereof is managed and their effectiveness is valued on the basis of fair values in accordance with the documented risk management or investment strategies, and information about this group is presented to the top management of the Bank on this basis.

Management has not designated any instrument as a Financial asset at fair value through profit or loss in the year 2008 and 2007.

Any changes in fair value are shown in the Net trading income.

Available-for-sale securities

Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

**2 ACCOUNTING POLICIES (continued)**

**(g) Financial assets (continued)**

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale;
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale

The Bank discloses balances of Loans to banks, clients, Cash and balances with central bank and Other financial assets in separate notes.

Held-to-maturity securities

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sold other than an insignificant amount of the held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Regular-way purchases and sales of financial assets are recognised on the settlement date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity securities and Loans and receivables are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the financial assets are recognised at fair value through profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement.

## **2 ACCOUNTING POLICIES (continued)**

### **(g) Financial assets (continued)**

However, interest calculated using the effective interest rate method and foreign exchange differences on debt securities are recognised directly in the income statement.

The fair values of quoted investments in active markets are based on current bid quoted prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. In order to determine the real value of financial assets or liabilities, the Bank uses quoted market bid and ask rates as input variables.

Acquisition of a financial asset or liability is booked by the Bank at the fair value equal to the transaction price, i.e. fair value of the provided or received counter consideration. At acquisition of the financial asset or liability, there is no difference for the Bank between the booked fair value of financial asset or liability and the valuation amount as at the given date based on the valuation technique. As at the date of finalising the financial statements, the Bank's management assessed the methods used in order to assure that they reflect current market conditions, including relative liquidity of the market and credit spread.

### **(h) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### **(i) Sale and repurchase agreements**

The financial assets sold on the basis of a buy-back contract ("repo") are disclosed separately in the balance sheet, as pledged assets. The settlement received for sale is considered a received loan.

Financial assets purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

## 2 ACCOUNTING POLICIES (continued)

### (j) Impairment of financial assets

#### Assets carried at amortised cost

On a quarterly basis, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- (i) significant financial difficulties of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank’s granting a concession to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, that the lender would not otherwise consider;
- (iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (v) the disappearance of an active market for that financial asset because of financial difficulties.

The Bank first assesses whether objective evidence of impairment exists for individual financial assets. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics, in case it is possible to create such a group, and collectively assesses them for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity securities has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

## 2 ACCOUNTING POLICIES (continued)

### (j) Impairment of financial assets (continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's grading process that considers asset type, industry, geographical location, debtor characteristics, past-due status and other relevant factors. Those parameters are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets.

When the impairment loss decreases in the following period and this decrease can be related to the event, which arose after the impairment had been recognised, then the previously recognised impairment loss is reversed using the impairment account allowance. Reversal of the impairment loss is recognised in the income statement.

Bad debts are written off according to when any of the following occurs:

1. the debtor ceased to exist without a legal successor (deletion of legal entity from the commercial register, termination of inheritance proceedings after the death of individuals without heirs and the receivable from the inheritance being unsettled) and no collateral realisable from third parties exist;
2. the court renders a decision on the non-existence of receivable;
3. according to the law, the receivable otherwise ceased to exist;
4. the insolvency or bankruptcy proceedings towards the debtor were legitimately terminated or the proposal to open insolvency or bankruptcy proceedings were legitimately rejected due to the lack of debtor's assets and there is no collateral to the receivable from third parties or by way of other rights and assets, which could be converted into cash.

Furthermore, the Bank, in accordance with the decision of a responsible body, does not enforce the impaired receivables and writes them off as uncollectable, if it is obvious that further enforcement of the risky receivables would be unsuccessful or if the payment is not enforceable by legal means (e.g. if it was proven according to the execution results that the debtor has no other assets, rights or other assets of value for the settlement of the receivable, if the debtor successfully filed a claim for the lapsing of the receivable, etc.).

**2 ACCOUNTING POLICIES (continued)**

**(j) Impairment of financial assets (continued)**

In these cases, the Bank writes off the receivable against the relevant allowance accounts, which represents an impairment loss and to the line for written-off (or transferred) receivables in the income statement. Allowance accounts are aimed at covering the losses from written-off receivables or for covering the difference between the carrying value of the receivable and its price negotiated at the transfer to the cessionary. The loans are written off after execution of all necessary procedures and after setting the amount of impairment loss. Recovery of written-off amounts decreases the impairment losses in the income statement.

If a receivable is not extinct (i.e. the receivable still legally exists but is not enforceable or the enforcement would be inefficient), the receivable is being evidenced in the off-balance sheet. The Bank does not recognise extinct or non-existent receivables in the off-balance sheet.

Assets classified as available-for-sale

As at each balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Renegotiated loans

Renegotiated loans are financial assets, which would be overdue or would have a lower value, if the conditions of the loan were not renegotiated. Enforced renegotiation of the receivable occurs if the debtor is granted special conditions, because the Bank estimates that the loss would probably happen if these conditions were not granted. The Bank provides these conditions for economic or legal reasons related to the financial situation of the debtor, which it otherwise would not. This particularly concerns revision of the payment plan, decreasing the interest rate, remission of the penalty interests, deferring payments of the principal or appurtenances. In the case of enforced renegotiation, the receivable to the debtor is classified into the category of loans for which the debtor has defaulted and is then still monitored as risky in a special regime.

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**2 ACCOUNTING POLICIES (continued)**

**(k) Intangible assets**

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation on software is calculated using the straight-line method over its estimated useful life being 3 – 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date.

**(l) Equipment**

All tangible assets are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Depreciation of tangible fixed assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Motor vehicles	5
Furniture and fittings	2 - 10
Office equipment	2 - 3

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Tangible 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 disposals are determined by comparing proceeds with carrying amounts. These are included in the other operating income or other operating expense.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date.

Fixed assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

## **2 ACCOUNTING POLICIES (continued)**

### **(m) Leases**

All leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

### **(n) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances with central banks, eligible bills, loans to banks other than export loans and current government securities.

### **(o) Employee benefits**

The Bank governs the provision of employee benefits through internal guidelines. Some benefits are provided regularly to all employees (e.g. canteen and additional pension insurance); others are provided in relation to the actual need of an employee (e.g. interest-free loan for accommodation purposes or jubilee bonus). Furthermore, the Bank provides a facultative system of employee benefits which enables employees to choose the level of use of resources allocated according to their personal preference.

Contributions are made to the government's retirement benefit scheme at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the income statement in the same period as the related salary cost. Furthermore, the Bank provides additional pension insurance to its employees based on a defined contribution scheme which is structured according to the length of the employee's service. Contributions are charged to the income statement when paid.

The Bank creates provisions for other long-term employment benefits, such as life jubilees and retirement bonuses. This provision is created by a simple total of the amounts of the liabilities under these benefits as at the balance sheet day. The plan for other long-term employment benefits doesn't take any proceeds from the assets. The current value of the provision is calculated on the basis of an incremental approach, which takes fluctuation assumptions into account.

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## **2 ACCOUNTING POLICIES (continued)**

### **(p) Taxation and deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from cash flow hedges, tax non-deductible provisions, different tax treatments of fee income and accumulated tax losses from the previous years. Deferred tax related to the items which are charged or credited directly to equity is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in the Czech Republic, is recognised as an expense in the period in which taxable profits arise.

### **(q) Borrowings**

The category of financial liabilities at amortised cost is represented by Loans from banks, clients, debt securities in issue and other financial liabilities. Borrowings are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds net of transaction costs and the redemption value are recognised over the period of the borrowings using the effective interest rate method.

### **(r) Share capital**

Ordinary shares are classified as equity in the amount stated in the Commercial Register. Incremental costs directly attributable to the issue of new shares are shown as a deduction of retained earnings, net of tax.

## 2 ACCOUNTING POLICIES (continued)

### (s) State subsidy

In accordance with Act No. 58/1995 Coll. the Bank receives a subsidy from the state budget to cover losses resulting from financing operations it supported. The losses are calculated as the sum of:

- the accounted interest income from operating non-current supported financing (reduced by a fixed interest mark-up);
- plus interest income from the current investment of excess financial resources from supported financing;
- minus actual interest expense on these financial resources;
- minus associated fees paid by the Bank to acquire these resources;
- minus allowances and provisions; and
- minus the difference between income from financial derivative operations and costs related to these operations, foreign exchange rate differences and other costs that were recorded by the Bank to acquire the financial resources.

The income from the state subsidy is recognised in the accounting period when the loss occurs. Title to the state subsidy is recognised in other receivables when it is virtually certain.

### (t) Provisions

Provisions are recognised when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

### (u) Guarantees and credit commitments

The Bank also acts as an issuer of guarantees. Bank guarantee contracts are contractual relationships determining that the issuer will provide monetary payment guarantee to the beneficiary, subject to events listed in the letter of guarantee. Such guarantees are granted by the Bank based on the requirement of the exporter. Bank guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as at the balance sheet date.

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**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2008**

**2 ACCOUNTING POLICIES (continued)**

**(u) Guarantees and credit commitments (continued)**

These estimates are determined based on experience from similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the income statement.

The Bank enters into contingent economic relationships by granting credit commitments.

**(v) Collaterals and guarantees received**

The Bank also receives guarantees issued by other banks and other collateral from other subjects as a means of security. An important component of collateral received is insurance of export credit risks arranged by the Bank or in favour of the Bank. The collateral is not recognised as assets; however, they are reflected as credit enhancement in the measurement of loans. If the Bank has a loan failure covered by insurance, it recognises a receivable due from the insurance company in its assets at the moment the insurance event transpires.

**3 FINANCIAL RISK MANAGEMENT**

**(a) Strategy in using financial instruments**

By their nature, the Bank's activities are principally related to the use of financial instruments and derivatives. The Bank funds export loans through the use of bond issues and non-current borrowings; current borrowings from the inter-bank market are used as an additional source of funding. The Bank uses derivatives to cover interest and foreign exchange differences.

The Bank deposits free funds in other banks at fixed rates and for various periods, and uses them as loan collateral and as funds for export loans. The Bank seeks lending opportunities to commercial borrowers with a range of standing credit. Such exposures involve not just loans and advances; the Bank also enters into guarantees and other commitments.

The Bank does not trade in financial instruments, including derivatives, on stock exchange markets nor on OTC markets, to take advantage of short-term market movements in currency and interest rate prices.

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(a) Strategy in using financial instruments (continued)**

The Board places risk limits on the level of exposure that can be taken in relation to all daily market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions. The Bank uses selected derivatives for the fair value hedging to minimise the impact of changes in fair value on the income statement.

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of assets or increase in fair value of liabilities denominated both in local and foreign currencies using interest rate swaps, currency derivatives and cross-currency interest rate swaps.

As at 1 July 2008, the Bank reclassified a limited number of securities according to the amendment of IAS 39.

**Reclassification of securities from the Available-for-sale category to Loans and receivables**

The reason for the reclassification of the float interest rate bonds below, which were originally classified as available-for-sale financial assets, was the unification of the classification of these individual securities, which are not quoted on the stock exchange and the Bank's declared intention to hold the securities until maturity.

The Bank expects full settlement of future cash flows from these securities at agreed terms.

Issuer	ISIN	Reclassification date	Fair value at date reclassification CZK'm	Profit recognised in equity at the reclassification CZK'm	Effective interest rate %
Hypo Real Estate Bank International	XS0226696648	1.7.2008	310	5	(0,00770)

  

	Book value at 31 December CZK'm	Fair value at 31 December CZK'm	Fair value gain/loss recognized in the equity at 31 December CZK'm	Interest income recognized in the income statement for the period CZK'm	Fair value loss in equity if not reclassified CZK'm
2007	303	303	(1)	9	-
2008	307	274	4	10	(33)

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The credit exposure results from individual banking products provided under supported export financing and from the Bank's operations on money markets and capital markets. The Bank has established a system of approval authorities, depending on the total limit for the client.

Credit risk management and its control are organisationally incorporated into the Risk management section for which one Board member is responsible.

#### **Credit risk measurement**

The Bank assesses the probability of a default by individual counterparties by using rating models which assess the default risk on an individual basis. The Bank has established a rating model for corporate and banking client risk assessment.

Rating models have been developed based on internally-produced methodologies. They combine statistical analysis with expert assessment by the risk manager. During revisions and updates of the rating system in 2007, the Bank prepared changes in the scale system: there are 7 grades plus 1 grade for entities in default, effective from 2008.

The Bank validated its rating models through comparison with the market best practice. The scale of rating grades reflects the individual levels of the probability of default. Internal rating tools are regularly revised and updated as needed. These documents are approved by the Credit committee. Besides rating models, the Bank has also developed an assessment system for project financing needs.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, to geographical segments according to the place of origin of cash flow and the borrower's country of residence, concentration of industry and concentration in selected rating categories. To mitigate the credit risk, the Bank mainly uses the insurance provided by EGAP and other collaterals in accordance with Act No. 58/1995 Coll.

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(b) Credit risk (continued)**

**Credit risk measurement (continued)**

Exposure to a borrower or to an economically related group of borrowers is restricted by exposure limits set by the regulator (CNB regulation). Due to prudent reasons respecting the regulation limits, the Bank reduces exposure to one borrower or to one economically related group of borrowers by signal exposure limits, which are expressed as a defined percentage from exposure limits set by the CNB. The exposure to banks and brokers is further restricted by trade sub-limits for balance sheet and off-balance sheet items and sub-limits for the settlement risk. The significant concentration of credit risk to one borrower or group of borrowers, where the probability of the failure is influenced by the common risk factor (territory, industry, rating of the subject), is restricted by concentration limits. Actual exposures against limits are monitored daily. All limits are regularly reviewed at least once a year.

**Maximum credit risk exposure before hedge instruments are applied**

	Maximum exposure	
	2008	2007
	CZK'm	CZK'm
<b><u>Balance sheet exposure</u></b>		
Financial instruments held for trading - derivatives	1 478	1 508
Financial instruments available-for-sale	1 285	811
Loans and receivables		
- to banks	9 869	11 230
- to other customers	27 220	17 671
- other financial undifferentiated assets	17	106
Financial instruments held-to-maturity	1 723	2 610
Hedging derivatives - positive fair values	61	180
Other assets non-financial incl. current income tax assets	840	168
	<b><u>42 493</u></b>	<b><u>34 284</u></b>
<b><u>Off balance sheet exposure</u></b>		
Financial guarantees	2 998	4 004
Credit commitments	20 672	18 694
Other financial credits	576	487
	<b><u>24 247</u></b>	<b><u>23 185</u></b>
	<b><u>66 740</u></b>	<b><u>57 469</u></b>

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations.

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(b) Credit risk (continued)**

**Maximum credit risk exposure before hedge instruments are applied (continued)**

The Bank's debtors could be influenced by lower liquidity, which could have an impact on their ability to pay the amounts due. Deteriorating operational conditions of debtors could also affect the management when preparing previews of cash flows and assessments of the level of impairment of financial and non-financial assets. According to available information, the management took new estimations of expected future cash flows into account during the assessment of possible decreases in the value of assets.

The basic method for reducing the Bank's credit risk is export credit risk EGAP insurance concluded for the benefit of the Bank according to Act No. 58/1995 Coll. The Bank also uses financial collaterals deposited in the Bank to hedge against credit risk or other banks and bank guarantees issued by entities incorporated in OECD countries or by credible domestic banks. The Bank also accepts other types of collateral.

For the purposes of credit risk management, the insurance and other financial collaterals are recognised at nominal value, which is close to the estimated fair value. Other types of collateral are recognised at fair value, which is set on the basis of a market valuation of the collateral or determination of the guarantor's credibility and on the basis of realisation coefficients of each type of collateral. If the collateral is not recognised at market prices or the guarantor's credibility is not determined, or if the realisation of the collateral would not be successful, such collateral is recognised as having zero value (recorded with the value of CZK 1 in the off-balance sheet).

**Financial derivatives**

The credit risk resulting from open derivative positions is managed within the overall trading limits for individual borrowers, by both amount and term. Collateral or other security is not usually obtained for credit risk exposures on these instruments. Under exceptional circumstances the financial collateral is received as a deposit bearing a base rate for the given currency.

The credit risk from derivative positions is also managed mainly by choosing credible counterparties and regularly monitoring their financial situation. The derivatives are concluded with counterparties based in OECD countries (or with domestic credible counterparties) with ratings of A and better from long-term international rating agencies.

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YEAR ENDED 31 DECEMBER 2008

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(b) Credit risk (continued)**

**Other financial assets**

For the purposes of credit risk management of other financial assets, the same approach is applied to credit risk management of loans.

**Loans**

	2008			2007		
	Loans and other debts			Loans and other debts		
	to other banks	to customers	undiffe- rentiated	to other banks	to customers	undiffe- rentiated
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	
Neither past due nor impaired	5 322	25 561	-	6 294	17 179	-
Past due but not impaired	-	39	-	-	258	-
Impaired	261	1 842	-	-	373	-
<b>Total</b>	<b>5 583</b>	<b>27 442</b>	<b>-</b>	<b>6 294</b>	<b>17 810</b>	<b>-</b>
Less: allowance for impairment	-	(222)	-	-	(139)	-
<b>Total credits</b>	<b>5 583</b>	<b>27 220</b>	<b>-</b>	<b>6 294</b>	<b>17 671</b>	<b>-</b>
Other receivables neither past due nor impaired	4 286	-	17	4 929	-	63
<b>Loans total</b>	<b>9 869</b>	<b>27 220</b>	<b>17</b>	<b>11 223</b>	<b>17 671</b>	<b>63</b>

**Loans neither past due nor impaired**

In order to recognise the credit risk of loans and receivables neither past due nor impaired, the internal rating system of the Bank based on the entity rating is applied.

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3 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Loans neither past due nor impaired (continued)

internal rating	2008				2007				
	Banks	Customers	undiffe- rentiated	Total	Banks	Customers	undiffe- rentiated	Total	
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	
Highest credit quality	1	270	-	-	270	379	-	-	379
High credit quality	2	1 282	-	-	1 282	1 249	-	-	1 249
Very good credit quality	3	2 680	122	-	2 802	3 635	669	-	4 304
Good credit quality	4	-	2 333	-	2 333	44	4 080	-	4 124
Quality exposure requiring attent	5	667	7 402	-	8 069	335	3 921	-	4 256
Vulnerable	6	30	7 265	-	7 295	82	1 571	-	1 653
Unsatisfactory	7	393	92	-	485	570	1 728	-	2 298
Project Financing	A-D	-	8 347	-	8 347	-	5 210	-	5 210
<b>Total credits</b>		<b>5 322</b>	<b>25 561</b>	<b>-</b>	<b>30 883</b>	<b>6 294</b>	<b>17 179</b>	<b>-</b>	<b>23 473</b>
Highest credit quality	1	1 167	-	-	1 167	1 820	-	-	1 820
High credit quality	2	2 997	-	-	2 997	2 978	-	-	2 978
Very good credit quality	3	122	-	1	123	131	-	47	178
Quality exposure requiring attent	5	-	-	4	4	-	-	1	1
Vulnerable	6	-	-	2	2	-	-	1	1
Unsatisfactory	7	-	-	1	1	-	-	5	5
Project Financing	A-D	-	-	4	4	-	-	-	-
Non-rated	-	-	-	5	5	-	-	9	9
<b>Other receivables total</b>		<b>4 286</b>	<b>-</b>	<b>17</b>	<b>4 303</b>	<b>4 929</b>	<b>-</b>	<b>63</b>	<b>4 992</b>
<b>Loans total</b>		<b>9 608</b>	<b>25 561</b>	<b>17</b>	<b>35 186</b>	<b>11 223</b>	<b>17 179</b>	<b>63</b>	<b>28 465</b>

During 2008, the Bank continued the increasing trend of financing so-called "green field" projects, where a creditor is a newly established subject, which was set up as a special purpose vehicle ("SPV"). Due to their non-existent business history, these entities are automatically allocated a rating of A - D, according to the quality of the project.

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3 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Loans past due but not impaired

	2008		2007	
	Loans to other banks CZK'm	Loans to customers CZK'm	Loans to other banks CZK'm	Loans to customers CZK'm
Past due by 30 days	-	38	-	221
Past due 30 - 90 days	-	1	-	-
Past due 90 - 180 days	-	-	-	37
<b>Total</b>	<b>-</b>	<b>39</b>	<b>-</b>	<b>258</b>
Fair value of collateral	-	31	-	255

Impaired loans

	2008		2007	
	Loans to other banks CZK'm	Loans to customers CZK'm	Loans to other banks CZK'm	Loans to customers CZK'm
Individually impaired loans	261	1 842	-	373
Fair value of collateral	255	1 285	-	231

Renegotiated loans

	2008	2007
	CZK'm	CZK'm
Loans to customers	384	-
<b>Total</b>	<b>384</b>	<b>-</b>

Credit-related commitments and similar instruments

The primary purpose of these instruments is to ensure that funds are available to a customer, as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts from the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

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3 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Commitments to grant a credit represent unused portions of authorised credit lines in the form of loans. With respect to credit risk on commitments to grant credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to grant credit are contingent upon customers maintaining specific credit standards.

(c) Geographical concentrations of assets, liabilities, revenues and off-balance sheet items

This note incorporates IFRS 7 geographical concentrations of assets, liabilities and off-balance sheet item disclosures and IAS 14 segment disclosures.

	Total assets CZK'm	Total liabilities CZK'm	Credit commitments and guarantees CZK'm	Revenues CZK'm	Capital expenditure CZK'm
<b>At 31 December 2008</b>					
Czech Republic	8 627	12 342	5 154	860	14
Russia, Ukraine, Belarus, Moldavia	16 966	152	10 350	1 271	-
Other European countries	6 061	27 883	4 178	(1 014)	-
Turkey	2 649	-	-	333	-
China	1 219	-	-	110	-
Iran	370	2	5	27	-
Azerbaijan, Tajikistan, Mongolia, Pakistan	1 231	10	495	124	-
Georgia	4 244	-	597	233	-
Vietnam, India	1	4	2 381	(1)	-
North America, Cuba, Japan	1 125	22	510	119	-
	<b>42 493</b>	<b>40 415</b>	<b>23 670</b>	<b>2 062</b>	<b>14</b>
<b>At 31 December 2007</b>					
Czech Republic	7 673	9 379	4 959	-	20
Russia, Ukraine, Belarus, Moldavia	8 705	154	11 094	69	-
Other European countries	7 262	22 041	536	2 046	-
Turkey	2 792	-	-	(199)	-
China	1 898	-	-	(221)	-
Iran	570	-	24	(45)	-
Azerbaijan, Tajikistan, Mongolia, Pakistan	786	12	1 995	(37)	-
Georgia	3 634	1	1 129	(106)	-
Vietnam	1	-	2 354	-	-
North America and Japan	963	1	607	(38)	-
	<b>34 284</b>	<b>31 588</b>	<b>22 698</b>	<b>1 469</b>	<b>20</b>

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Geographical concentrations of assets, liabilities, revenues and off-balance sheet items (continued)

Revenue, total assets, total liabilities, credit commitments and guarantees have generally been allocated based on the country in which the counterparty is located. Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

Although the Bank's export financing business segment is managed on a worldwide basis, the Bank operates in seven main geographical areas. The Bank's exposure to credit risk is concentrated in these areas.

The Czech Republic is the home country of the Bank, which is also the main operating area. However, significant areas of credit exposure are Turkey, China, Russia, Ukraine and Belarus.

As an active participant in the international banking market, the Bank has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions is estimated to have amounted to CZK 7,122 million as at 31 December 2008 (2007: CZK 7,983 million), of which CZK 1,539 million (2007: CZK 1,688 million) consisted of derivative financial instruments.

Geographic sector risk concentrations within the loans and other debts were as follows:

	2008		2007	
	CZK'm	%	CZK'm	%
Russia, Ukraine, Belarus, Moldavia	16 962	46	8 698	30
Georgia	4 244	11	3 632	13
Czech Republic	6 211	17	6 722	23
Turkey	2 649	7	2 792	10
China	1 219	3	1 898	7
Other European countries	3 809	10	3 605	12
Azerbaijan, Tajikistan, Mongolia	1 221	3	775	2
Iran	370	1	570	2
United States of America, Cuba, Japan	421	1	265	1
<b>Total</b>	<b>37 106</b>	<b>100</b>	<b>28 957</b>	<b>100</b>

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

3 FINANCIAL RISK MANAGEMENT (continued)

(d) Branch concentrations of assets, liabilities, revenues and off-balance sheet items

	<u>Total assets</u> CZK'm	<u>Total liabilities</u> CZK'm	<u>Credit commitments and guarantees</u> CZK'm	<u>Revenues</u> CZK'm	<u>Capital expenditure</u> CZK'm
<b>At 31 December 2008</b>					
Agriculture, hunting, forestry	54	-	-	4	-
Mineral wealth mining	657	49	-	54	-
Processing industry	7 830	350	7 662	563	-
Production and distribution					
electricity, gas and water	10 305	39	5 188	818	-
Building industry	10	626	3 856	(58)	-
Trade;					
repairs vehicle					
and household ware	70	571	2 412	70	-
Transport, warehousing					
and communications	2 677	81	832	252	-
Financial intermediation	13 468	38 527	159	(427)	14
Activity of immovables area					
and leasing area	4 675	166	3 135	357	-
Public administration, defence;					
social security obligatory	2 747	6	426	429	-
<b>Total</b>	<b><u>42 493</u></b>	<b><u>40 415</u></b>	<b><u>23 670</u></b>	<b><u>2 062</u></b>	<b><u>14</u></b>
<b>At 31 December 2007</b>					
Agriculture, hunting, forestry	60	-	-	-	-
Mineral wealth mining	635	11	116	11	-
Processing industry	4 272	272	6 119	37	-
Production and distribution					
electricity, gas and water	8 292	3	2 078	(289)	-
Building industry	91	106	3 127	21	-
Trade;					
repairs vehicle					
and household ware	129	917	2 531	144	-
Transport, warehousing					
and communications	2 033	111	1 438	10	-
Financial intermediation	15 834	30 124	1 089	1 560	20
Activity of immovables area					
and leasing area	1 731	13	4 708	(13)	-
Public administration, defence;					
social security obligatory	1 207	31	1 492	(12)	-
<b>Total</b>	<b><u>34 284</u></b>	<b><u>31 588</u></b>	<b><u>22 698</u></b>	<b><u>1 469</u></b>	<b><u>20</u></b>

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(d) Branch concentrations of assets, liabilities, revenues and off-balance sheet items (continued)**

Branch risk concentrations within loans to other banks, customer loans and reverse repos were as follows:

**Loans**

	2008		2007	
	CZK'm	%	CZK'm	%
Agriculture, hunting, forestry	54		60	-
Mineral wealth mining	656	2	635	2
Processing industry	7 817	21	4 254	15
Production and distribution electricity, gas and water	10 206	28	8 188	28
Building industry	8		91	-
Trade; repairs vehicle and household ware	70		129	1
Transport, warehousing and communications	2 620	7	1 981	7
Financial intermediation	9 872	27	11 228	39
Activity of immovables area and leasing area	4 668	13	1 729	6
Public administration, defence; social security obligatory	1 135	3	662	2
<b>Total</b>	<b>37 106</b>	<b>100</b>	<b>28 957</b>	<b>100</b>

**(e) Market risk**

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank applies sensitivity analyses to observe the breakdown of interest risk in individual currencies, in different periods and “Value at Risk” (“VAR”) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted, from which all market risks limits are derived. Actual utilisation of the limits is monitored on a daily basis by risk management. The Bank uses a linear parametric model to calculate VAR, which describes mutual relationships between risk factors via a covariance matrix. The bank has not been exposed to risks stemming from nonlinear instruments. The VAR is computed on the 99% level of confidence for the 10-day holding period. All VAR values are summarised in the table below.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

3 FINANCIAL RISK MANAGEMENT (continued)

(e) Market risk (continued)

VAR summary

100 days VAR CZK'm	12 months to 31 December 2008			12 months to 31 December 2007		
	Average	High	Low	Average	High	Low
Interest rate risk	48,95	109,14	20,63	52,56	138,05	26,58
Foreign exchange risk	3,26	9,87	0,57	0,85	7,72	0,27
Total VAR	48,57	108,11	21,06	52,44	137,16	26,43

  

260 days VAR CZK'm	12 months to 31 December 2008			12 months to 31 December 2007		
	Average	High	Low	Average	High	Low
Interest rate risk	44,73	88,79	21,21	53,17	107,96	29,39
Foreign exchange risk	2,84	9,18	0,57	0,88	7,15	0,35
Total VAR	44,45	88,73	21,46	53,08	107,57	29,37

Backtesting of the VAR model is performed regularly. The following table shows a backtesting result as at 31 December 2008 and 2007:

Year	Number of observation	Reached reliability for interest risk %	Reached reliability for currency risk %	Number of cases with higher loss for interest risk	Number of cases with higher loss for currency risk
2007	247	96,4	98,8	7	3
2008	245	95,1	100,0	12	-

The Bank conducts quarterly stress testing of the impact of material changes in financial markets on the level of market exposure. Within the sensitivity analyses, the material fluctuation scenarios and changes in interest curves and monetary exchange rates are tested; for the VAR, the impact of a breach of valid correlations is tested. Given that the Bank's instrument portfolio revaluation to the real value to income statement is not significant, the impact on the Bank's income statement is not assessed as part of the stress tests.

Bank management is informed about actual exposure to market risk (information about VAR and the back testing of VAR, results of sensitivity analysis and information about currency risk) on a daily basis. The complex report containing information about positions and market risk progression is regularly reported to the Assets and liabilities committee ("ALCO") every month.

**ČESKÁ EXPORTNÍ BANKA, A.S.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2008**

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Currency risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. The foreign currency exchange rate risk is managed using an analysis of currency sensitivity and VAR, for which a set of limits has been established. A foreign currency exchange rate risk greater than 2% of capital is reflected in the capital adequacy requirement for the Bank.

The table below summarises the Bank's exposure to currency exchange rate risk as at 31 December 2008 and 2007. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

3 FINANCIAL RISK MANAGEMENT (continued)

(f) Currency risk (continued)

Concentrations of assets, liabilities and off-balance sheet items

	<u>CZK</u> CZK'm	<u>USD</u> CZK'm	<u>EUR</u> CZK'm	<u>Other</u> CZK'm	<u>Total</u> CZK'm
<b><u>At 31 December 2008</u></b>					
<b>Assets</b>					
Cash and balances with central bank	442	-	-	-	442
Financial instruments held for trading	1 478	-	-	-	1 478
Financial instruments available-for-sale	1 285	-	-	-	1 285
Loans and receivables					
- from banks	1 303	3 841	4 673	52	9 869
- from other clients	428	5 948	20 844	-	27 220
- undifferentiated	7	-	10	-	17
Financial instruments held-to-maturity	374	-	1 349	-	1 723
Hedging derivatives	26	33	2	-	61
Equipment	14	-	-	-	14
Intangible assets	7	-	-	-	7
Other assets, including tax	373	1	2	1	377
<b>Total assets</b>	<b>5 737</b>	<b>9 823</b>	<b>26 880</b>	<b>53</b>	<b>42 493</b>
<b>Liabilities</b>					
Financial liabilities held for trading	21	-	-	-	21
Financial liabilities in amortized costs					
- to banks	151	1 912	6 042	-	8 105
- to other clients	1 034	575	1 027	-	2 636
- undifferentiated	23	1	6	-	30
- issued bonds	5 697	7 007	15 771	-	28 475
Hedging derivatives	8	262	841	-	1 111
Other liabilities, including tax	10	18	9	-	37
<b>Total liabilities</b>	<b>6 944</b>	<b>9 775</b>	<b>23 696</b>	<b>-</b>	<b>40 415</b>
Net on-balance sheet items	(1 207)	48	3 184	53	2 078
Currency forward	5 775	1	(4 039)	-	1 737
<b>Net currency position</b>	<b>4 568</b>	<b>49</b>	<b>(855)</b>	<b>53</b>	<b>3 815</b>

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Currency risk (continued)**

	<u>CZK</u> CZK'm	<u>USD</u> CZK'm	<u>EUR</u> CZK'm	<u>Other</u> CZK'm	<u>Total</u> CZK'm
<b><u>At 31 December 2007</u></b>					
Total assets	4 922	12 154	17 188	20	34 284
Total liabilities	<u>6 384</u>	<u>12 163</u>	<u>13 041</u>	<u>-</u>	<u>31 588</u>
Net on-balance sheet position	(1 462)	(9)	4 147	20	2 696
Currency forward	5 500	-	(3 992)	-	1 508
<b>Net currency position</b>	<b><u>4 038</u></b>	<b><u>(9)</u></b>	<b><u>155</u></b>	<b><u>20</u></b>	<b><u>4 204</u></b>

**(g) Cash flow and fair value interest rate risk**

The Bank is exposed to interest rate risk as its interest bearing assets and liabilities have different refixing or maturity dates. For floating rate instruments, the Bank is exposed to basic risks, which arise from the difference in reference market interest rates, primarily LIBOR, EURIBOR and possibly PRIBOR. Interest rate risk management aims at minimising the sensitivity of the Bank to changes in interest rates.

In accordance with the risk management strategy approved by the Board, the Bank optimises the structure of its sources of finance comprising bond issues and syndicated loans so that no significant differences between the duration of its interest sensitive assets and liabilities arise.

Interest rate derivatives are used for mitigating the difference between the interest rate sensitivity of assets and liabilities. These transactions are used in accordance with the interest risk management strategy approved by the ALCO to reduce the interest rate risk of the Bank.

**(h) Liquidity risk**

Liquidity risk arises from different types of Bank financing and the management of its positions. It includes both the risk of the Bank's ability to finance its assets with liabilities with appropriate maturity and the Bank's ability to liquidate/sell its assets at a favourable price in a favourable time.

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (h) Liquidity risk (continued)

The Bank uses own methods of measuring and monitoring net cash flows and liquidity position for liquidity risk management. The differences between the inflow and outflow of financial funds are measured by gap analysis of the liquidity, which sets liquidity positions for different time periods and the cumulative volume of gaps. Development of liquidity in CZK, EUR, and USD currency structures and for the Bank in total is monitored on several levels of market performance, i.e. on the level of a standard scenario and 3 stress scenarios, one of which is also a scenario simulating a liquidity crisis. Sufficient liquidity level is regulated by a set of limits and is managed through on-balance (e.g. issue of obligations, received loans) and off-balance trades (FX swaps, cross currency swaps). The Bank has furthermore established a set of liquidity indicators, through which it manages asset structure, liabilities and off-balance items, i.e. particularly required structure of funds in relation to the structure of loans provided, loan commitments and guarantees issued, minimal volumes of the most liquid assets and liquid reserves. On a regular basis, the Bank assesses its plans for gaining funds based on the current development of liquidity risk, financial markets and other factors.

Matching and managed discrepancies in maturity dates and the interest rates of assets and liabilities are of essential importance for the Bank's management. The complete matching of maturities is not standard for banking entities due to the different types and non-defined maturities of specific transactions. The maturity of assets and liabilities and the ability to compensate the interested commitments at maturity with acceptable expenses are important factors for evaluating the Bank's liquidity and the degree to which the Bank is exposed to interest rate and exchanges rate changes.

Liquidity requirements for the purpose of a guarantee's fulfillment and standby letters of credit are subsequently lower than the amount of the commitment, because the Bank generally does not expect that a third party will withdraw funds from such a contract. The total undrawn amount of contractual commitments to lend does not have to equal the funds needed in the future, because of the fact that many of these commitments will expire or will be terminated without being drawn. If it happens, the Bank can use funds from received borrowing commitments and counter-guarantees that are immediately available.

#### **Financial crisis**

The Bank has access to diversified sources of finance. These sources comprise issued bonds, syndicated loans from domestic as well as international financial markets and other deposits received from other banks and customers. This diversification gives flexibility to the Bank and limits its dependence on one source of finance. On a regular basis, the Bank assesses the liquidity risk by monitoring changes in the structure of sources of finance.

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(h) Liquidity risk (continued)**

**Financial crisis (continued)**

Furthermore, the Bank holds some of its assets in highly liquid instruments such as T-bills and similar debt securities as part of its liquidity management strategy.

The Bank understands that the financial crisis is a crisis of trust and lack of mid- and long-term liquidity. For this reason it checks the reliability of contracted back-up funding on a regular basis, which can be used in case of a lack of liquidity on the financial market. The Bank's approach to the funds on the financial market has not changed since the beginning of the crisis, it is still considered secure. The Bank has enough liquidity to cover its commitments and it has not introduced any business activity restrictions. Due to unfavourable credit margin developments, the Bank continuously re-assesses the structure of gaining funds so that the consequences of the crisis on the Bank's results are minimal.

**Maturity of non-derivative financial liabilities**

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
<b>31 December 2008</b>						
<b>Liabilities</b>						
Due to other banks	185	28	4 373	4 039	-	8 624
Due to customers	1 888	285	71	252	145	2 642
Debt securities in issue	104	135	8 007	17 796	6 554	32 596
<b>Total liabilities</b>	<b>2 177</b>	<b>448</b>	<b>12 451</b>	<b>22 087</b>	<b>6 699</b>	<b>43 862</b>
Loan commitments	3 531	3 515	7 240	6 386	-	20 672
<b>31 December 2007</b>						
<b>Liabilities</b>						
Due to other banks	387	-	1 725	2 217	2 075	6 404
Due to customers	1 140	57	88	701	79	2 065
Debt securities in issue	-	52	3 895	17 116	6 761	27 824
<b>Total liabilities</b>	<b>1 527</b>	<b>109</b>	<b>5 708</b>	<b>20 034</b>	<b>8 915</b>	<b>36 293</b>
Loan commitments	3 282	3 481	7 351	4 580	-	18 694

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

3 FINANCIAL RISK MANAGEMENT (continued)

(h) Liquidity risk (continued)

Maturity of derivative liabilities

Derivatives to be settled net include liabilities of interest swaps.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
<b>31 December 2008</b>						
Derivatives held for trading	-	(1)	1	(5)	(1)	(6)
Hedging derivatives	(15)	13	(122)	(760)	16	(868)
<b>31 December 2007</b>						
Hedging derivatives	(19)	-	23	(17)	-	(13)

Derivatives to be settled gross include currency swaps, currency forwards and cross currency swaps.

All currency and cross currency derivatives in the Bank's portfolio are designated as trading.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
<b>31 December 2008</b>						
<b>Derivatives held for trading</b>						
Foreign exchange derivatives						
outflow	-	(970)	-	(263)	-	(1 233)
inflow	-	965	-	265	-	1 230
Cross currency swaps						
outflow	-	(30)	(89)	(4 102)	-	(4 222)
inflow	-	50	153	5 608	-	5 810
<b>Total outflow</b>	-	<b>(1 000)</b>	<b>(89)</b>	<b>(4 366)</b>	-	<b>(5 455)</b>
<b>Total inflow</b>	-	<b>1 015</b>	<b>153</b>	<b>5 873</b>	-	<b>7 040</b>
<b>31 December 2007</b>						
<b>Derivatives held for trading</b>						
Foreign exchange derivatives						
outflow	27	-	-	685	-	712
inflow	27	-	-	686	-	713
Cross currency swaps						
outflow	-	47	142	4 283	-	4 472
inflow	-	57	172	5 851	-	6 080
<b>Total outflow</b>	<b>27</b>	<b>47</b>	<b>142</b>	<b>4 968</b>	-	<b>5 184</b>
<b>Total overflow</b>	<b>27</b>	<b>57</b>	<b>172</b>	<b>6 537</b>	-	<b>6 793</b>

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

**3 FINANCIAL RISK MANAGEMENT (continued)**

**(i) Fair values of financial assets and liabilities**

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Fair value incorporates expected future losses while carrying value (amortised cost and related impairment) only includes incurred losses as at the balance sheet date.

	Carrying value		Fair value	
	2008	2007	2008	2007
	CZK'm	CZK'm	CZK'm	CZK'm
<b>Financial assets</b>				
Loans to other banks	9 869	11 223	9 761	11 307
Loans to customers	27 220	17 671	25 018	17 965
Securities held-to-maturity	1 723	2 610	1 607	2 605
<b>Financial liabilities</b>				
Due to other banks	8 105	5 911	7 942	5 837
Due to customers	2 636	1 985	2 764	1 985
Debt securities in issue	28 475	23 455	29 095	24 071
Loan commitments given	20 672	18 694	4	9

Loans to banks

Due from other banks includes inter-bank deposits and other receivables. The fair value of floating rate deposits and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows based on the prevailing yield curve for respective remaining maturity.

Loans to clients and held-to-maturity securities

The estimated fair value of loans and held-to-maturity securities represents the discounted amount of estimated future cash flows. Expected cash flows are discounted at prevailing money-market interest rates for debts and securities with similar credit risk and remaining maturity considering credit spreads of relevant financial instruments as at the year end, including existing credits security.

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 3 FINANCIAL RISK MANAGEMENT (continued)

#### (i) Fair values of financial assets and liabilities (continued)

##### Due to banks and due to clients

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings without a quoted market price is based on discounted cash flows using the prevailing yield curve for the respective maturity.

##### Issued bonds

For bonds issued, a discounted cash flow model is used based on a current yield curve for the respective maturity.

#### (j) Capital management

The aim of the Bank with respect to capital management is to comply with the regulatory requirements in the area of capital adequacy and to maintain strong capital in order to support development of subsidised financing provided pursuant to Law No. 58/1995 Coll.

Information about capital and regulatory capital adequacy are available to the management of the Bank on a daily basis. Mandatory capital adequacy information is reported to the Czech National Bank on the monthly basis.

In 2007, new regulatory rules set by the law on banks and specified by the prudential rules regulation of the Czech National Bank on the business activities of banks came into force. These rules brought the new capital concept indicated as Basel II into national legislation. The Bank uses the new capital adequacy concept from 1 June 2008. (In 2007, the Bank used the possibility of an interim period and it proceeded according to the current capital adequacy rules valid prior to the day the CNB regulation took effect.)

The Bank uses the standard approach based on an external rating to calculate the capital requirement for the credit risk of the investment portfolio, i.e. calculate risk-weighted exposures. The risk exposure weight is based on the exposures category and credit quality. Credit quality is determined based on the external rating, which was set by the rating agency registered in the list of agencies for credit assessment maintained for this purposes by the CNB or by the export credit agency. CNB regulations define exposure categories and risk weights used in the standard approach.

When calculating risk weighted exposures, the Bank considers methods of decreasing credit risk in the form of collateral and guarantees.

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**NOTES TO FINANCIAL STATEMENTS**

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### **3 FINANCIAL RISK MANAGEMENT (continued)**

#### **(j) Capital management (continued)**

The Bank is obliged to maintain capital at the minimum level equal to the total of individual capital requirements to cover credit, market and operational risks. To express regulatory capital adequacy as a percentage, the capital adequacy limit is used, which is calculated as 8% of the ratio where the numerator is in the Bank's equity and the denominator is in the total of individual capital requirements.

The capital adequacy of the Bank in 2008 remained significantly above the minimum threshold set by the capital adequacy limit.

The structure of the regulatory capital is based primarily on the share capital subscribed and paid in by the Bank's shareholders, statutory reserve funds and other reserves (Tier 1).

As at 1 January 2008, the Bank created a system of internally set capital (SVSK) in order to fulfil its legal obligations in the area of planning and continuously maintaining internally set capital in the amount, structure and distribution, so that the risks, which could threaten the Bank, are sufficiently covered. The Board of Directors approves the methods used to evaluate and measure each risk undertaken by the Bank in the SVSK framework in relation to its risk profile. Internally set capital is sufficient to cover all risks undertaken by the Bank.

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NOTES TO FINANCIAL STATEMENTS

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**3 FINANCIAL RISK MANAGEMENT (continued)**

**(j) Capital management (continued)**

The table below shows the structure of the regulatory capital and the capital adequacy indicator as at 31 December of the relevant year:

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
<b>Tier 1 capital</b>		
Share capital	2 000	1 850
Statutory reserve	370	370
Other reserves	447	337
Retained earnings	122	37
Less: Intangible assets other than Goodwill	(7)	(10)
<b>Total qualifying Tier 1 capital</b>	<u><b>2 932</b></u>	<u><b>2 584</b></u>
<b>Tier 2 capital</b>	<u>-</u>	<u>-</u>
<b>Total regulatory capital</b>	<u><b>2 932</b></u>	<u><b>2 584</b></u>
<b>Risk-weighted exposures (Basel II)</b>		
Balance sheet positions	5 670	
Off-balance sheet positions	2 741	
Derivatives	297	
	<u><b>8 708</b></u>	
<b>Risk-weighted assets (Basel I)</b>		
On-balance sheet assets of investment portfolio		3 863
Credit equivalents to off-balance sheet assets of investment portfolio		1 333
<b>Total risk-weighted assets</b>		<u><b>5 196</b></u>
<b>Other capital requirements</b>	<u><b>46</b></u>	<u><b>19</b></u>
<b>Basel ratio</b>	<u><b>31,58</b></u>	<u><b>49,55</b></u>

**(k) Global financial crisis**

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

#### **4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

##### **(a) Impairment losses on loans**

Besides individual loans, the Bank also reviews its loan portfolios at least on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans and estimates the expected cash flows and their timing for impaired loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on loans. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to the loans when scheduling its future cash flows. The methodology and assumptions used to estimate both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### **(b) State subsidy**

The Bank assessed rights for state subsidy and disclosed in accordance with IAS 20 as a subsidy compensating some expenses with impact to profit and loss statement and not as a transaction with the shareholder with the equity impact taking in account the principles based in the Act no. 58/1995 Coll. This Act was designed to support Czech export in general, not specially the Bank as an entity owned by the Czech state.

##### **(c) Income taxes**

The Bank is subject to income tax in Czech jurisdiction. The Bank recognises liabilities for anticipated tax issues based on estimates of tax assessments. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will have an impact on the income tax and deferred tax in the period in which such determination is made.

The tax authorities may at any time inspect the books and records within three years subsequent to the reported tax year, and may impose additional tax assessments and penalties.

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5 BUSINESS SEGMENTS

Geographical segments as at 31 December 2008 and 2007 are set out in Note 3(c) and are considered to be the primary segment. The Bank's activity is homogenous and there exists only one business segment for export financing.

6 NET INTEREST INCOME

	2008	2007
	CZK'm	CZK'm
Interest income from CNB loans - repos	4	5
Interest income from financial assets held for trading	-	1
Interest income from available-for-sale securities	39	26
Interest income from loans and receivables	1 533	1 299
Interest income from loans and receivables	1 549	1 312
Interest income from loans	1 339	1 104
Interest income from loans to banks	276	388
Interest income from loans to clients	1 063	716
Interest income from receivables	210	208
Interest income from interbank deposits	208	207
Interest income from current accounts with other banks	2	1
Interest income from non-tradeable securities	9	37
Amortization of hedged items at fair value	(25)	(50)
Interest income from financial investments held-to-maturity - securities	101	43
Gains on hedging interest derivative instruments	10	6
<b>Interest income</b>	<b>1 687</b>	<b>1 380</b>
Interest expense from financial liabilities in amortized costs	(1 559)	(1 294)
Interest expense from received bank credits	(91)	(105)
Interest expense from term deposits	(48)	(47)
Interest expense from checking accounts	(9)	(10)
Interest expense from interbanking operations	(2)	(2)
Interest expense from repos with banks	(61)	(33)
Interest expense from issued bonds	(1 348)	(1 097)
Gains on hedging interest derivative instruments	39	12
Other interest expense - collateral	(34)	(65)
<b>Interest expense</b>	<b>(1 554)</b>	<b>(1 347)</b>
<b>Net interest income</b>	<b>133</b>	<b>33</b>

Included within interest income for 2008 is CZK 58 million (2007: CZK 7 million) with respect to interest income accrued on impaired loans.

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**7 NET FEE AND COMMISSION INCOME**

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
Fees and commissions from financial instruments operations with customers	-	2
Fees and commissions from clearing and settlement	1	1
Fees and commissions from credit activities	3	-
Fees and commissions from payments	15	16
Fees and commissions from other services	16	18
<b>Fee income</b>	<b><u>35</u></b>	<b><u>37</u></b>
Fees and commissions for financial instruments operations	(2)	(3)
Fees for received loans from banks	(1)	(2)
Fee for security operations	(1)	(1)
Fees and commissions for other services	(8)	(7)
Fees and commissions for consulting and advisory services	(6)	(5)
Fees and commissions for rating	(2)	(2)
<b>Fee expense</b>	<b><u>(10)</u></b>	<b><u>(10)</u></b>
<b>Net fee and commission income</b>	<b><u><u>25</u></u></b>	<b><u><u>27</u></u></b>

**8 REALISED GAINS FROM FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS**

	<u>2008</u>	<u>2007</u>
		CZK'm
<b><u>At 1 January</u></b>	<b>69</b>	<b>72</b>
State subsidy received	(250)	(245)
Increase in receivables from state budget	281	242
<b><u>At 31 December</u></b>	<b><u>100</u></b>	<b><u>69</u></b>
Subsidy income	281	242
Gains from operations with securities	6	-
<b>Realized gains from financial assets and liabilities not carried at fair value through profit and loss</b>	<b><u><u>287</u></u></b>	<b><u><u>242</u></u></b>

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9 NET TRADING INCOME

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
Gain/(loss) from interest rate instruments	(2)	1
Derivatives transaction expenses	(7)	(2)
Derivatives operations revenues	5	3
Gain/(loss) from currency transactions	(2)	92
Derivatives transaction expenses	(204)	(267)
Derivatives transaction revenues	202	359
<b>Net trading income/(expense)</b>	<b><u>(4)</u></b>	<b><u>93</u></b>

10 FOREIGN EXCHANGE GAINS / (LOSSES)

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
<u>Foreign exchange:</u>		
Foreign exchange gains/(losses) from currency translations	52	(78)
Foreign exchange gains/(losses) from transactions with clients	3	44
Foreign exchange gains/(losses) from spot operations	2	(6)
<b>Total foreign exchange gains/(losses)</b>	<b><u>57</u></b>	<b><u>(40)</u></b>

11 OPERATING COSTS

	<u>Note</u>	<u>2008</u>	<u>2007</u>
		CZK'm	CZK'm
Staff costs		(140)	(116)
Salaries and emoluments		(105)	(82)
Social and health security costs		(27)	(29)
Other staff costs		(8)	(5)
Other general expense		(62)	(60)
Administrative expenses		(46)	(45)
Operating lease rentals		(16)	(15)
Depreciation and amortization		(20)	(21)
Software amortisation	18	(11)	(15)
Depreciation of long term tangible assets		(9)	(6)
Additions to provisions	23	(12)	(5)
Other		(8)	(3)
<b>Total operating costs</b>		<b><u>(242)</u></b>	<b><u>(205)</u></b>

The average evidenced number of employees of the Bank was 122 in 2008 (2007: 116).

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**12 INCOME TAX EXPENSE**

The tax on the Bank's profit before tax can be analysed as follows:

	<u>Note</u>	<u>2008</u> CZK'm	<u>2007</u> CZK'm
Income tax payable		57	23
Deferred tax	24	<u>(15)</u>	<u>47</u>
<b>Income tax expense</b>		<b><u>42</u></b>	<b><u>70</u></b>
Profit before taxation		237	150
Expected tax 21% (2005: 24%)		50	36
Effects of tax rate reduction (2008: 21%; 2009: 20%)		-	2
Non-tax deductible expenses		8	34
Non-taxable income		(16)	-
Other		<u>          </u>	<u>          </u>
<b>Income tax expense</b>		<b><u>42</u></b>	<b><u>70</u></b>

Non-tax deductible expenses and non-taxable income comprise in particular effect on income tax expense of creation and release of permanent tax non-deductible allowance to loans to customers of CZK 13 million (release of the allowances) for 2008 (2007: creation of allowances of CZK 34 million).

**13 IMPAIRMENT LOSSES ON LOANS**

	<u>Note</u>	<u>2008</u> CZK'm	<u>2007</u> CZK'm
Creation of allowances for receivables to clients		(139)	(208)
Utilisation and release of allowances on loans to customers	15	63	524
Receivables from clients written off		-	(317)
Claims from credit insurance on bad debts to customers		<u>57</u>	<u>1</u>
<b>Impairment losses on loans</b>		<b><u>(19)</u></b>	<b><u>-</u></b>

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**14 CASH AND BALANCES WITH THE CENTRAL BANK**

	<u>Note</u>	<u>2008</u> CZK'm	<u>2007</u> CZK'm
Reverse repo transactions included in cash equivalents		400	-
Mandatory reserve deposits with central bank		<u>42</u>	<u>7</u>
<b>Cash and balances with central bank</b>	28	<b><u>442</u></b>	<b><u>7</u></b>

Minimum obligatory reserves are set up as 2% of deposits from non-banking clients which have a maturity shorter than 2 years, recorded at the end of month preceding the month in which the relevant period begins. This limit is valid for the average daily balance with the central bank for the relevant period. The limit was not breached in 2008 or 2007. As these balances are available on a daily basis, these are included in cash and cash equivalents (Note 28).

**15 LOANS AND RECEIVABLES**

	<u>2008</u> CZK'm	<u>2007</u> CZK'm
Non-tradeable bonds issued by banks	410	101
Loans and receivables	36 696	28 856
Loans to banks	9 459	11 122
Loans to other entities	27 220	17 671
Other undifferentiated receivables	<u>17</u>	<u>63</u>
<b>Total loans and receivables</b>	<b><u>37 106</u></b>	<b><u>28 957</u></b>
<u>Remaining maturity:</u>		
Short-term loans to customers	6 620	9 343
Long-term loans to customers	<u>30 486</u>	<u>19 614</u>

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15 LOANS AND RECEIVABLES (continued)

Loans to banks

	Note	2008 CZK'm	2007 CZK'm
Current accounts with other banks		61	43
Placements with other banks due within 3 months		3 806	3 775
Included in cash equivalents	28	3 867	3 818
Placements with other banks due in more than 3 months		419	1 111
Nonnegotiable bonds		410	101
Loans to other banks		5 173	6 193
<b>Loans to banks</b>		<b>9 869</b>	<b>11 223</b>
<u>Remaining maturity:</u>			
Short-term loans to banks		4 457	6 693
Long-term loans to banks		5 412	4 530

Loans to clients

	2008 CZK'm	2007 CZK'm
<u>Loans to corporate entities:</u>		
Pre-export funding	2 347	1 786
Export funding	18 097	10 417
Investment	6 275	4 751
Operating	596	589
For bank guarantee	5	5
For factoring	122	262
	27 442	17 810
Allowance for loan impairment	(222)	(139)
<b>Loans to corporate entities</b>	<b>27 220</b>	<b>17 671</b>
<u>Remaining maturity:</u>		
Short-term loans to customers	2 146	2 587
Long-term loans to customers	25 074	15 084

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NOTES TO FINANCIAL STATEMENTS

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15 LOANS AND RECEIVABLES (continued)

Allowances for impairment on loans to clients

Changes in allowances for impairment on loans to clients

	<u>Note</u>	<u>2008</u> CZK'm	<u>2007</u> CZK'm
<b><u>At 1 January</u></b>		<b>139</b>	<b>457</b>
Additions to allowance	13	139	208
Utilisation for write offs		(1)	(318)
Release of allowance		<u>(62)</u>	<u>(207)</u>
Net movement in allowances		76	(317)
Foreign exchange differences		<u>7</u>	<u>(1)</u>
<b><u>At 31 December</u></b>		<b><u>222</u></b>	<b><u>139</u></b>

Other undifferentiated receivables

	<u>2008</u> CZK'm	<u>2007</u> CZK'm
Receivables from re invoicing of incurred expenses	12	58
Personnel loans from social fund	1	1
Receivable from insurance with EGAP	1	1
Rent-related services (EGAP)	<u>3</u>	<u>3</u>
<b>Other undifferentiated receivables</b>	<b><u>17</u></b>	<b><u>63</u></b>
<u>Remaining maturity:</u>		
Short-term debts	<u>17</u>	<u>63</u>

There has been no impairment on Other undifferentiated receivables.

16 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative instruments for trading and hedging purposes:

Currency forwards represent an exchange of one currency for another currency at a fixed stated moment in the future and for an exchange rate set at the contractual date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. The Bank monitors the level of credit risk on an ongoing basis. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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**16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair and notional values of derivative instruments are set out below.

**Derivatives total**

	Notional amount		Fair values	
	Assets CZK'm	Liabilities CZK'm	Assets CZK'm	Liabilities CZK'm
<b>31 December 2008</b>				
Derivatives held for trading	7 145	5 688	1 478	21
Hedging derivatives	26 150	26 150	61	1 111
<b>Total derivatives</b>	<b>33 295</b>	<b>31 838</b>	<b>1 539</b>	<b>1 132</b>
<u>Remaining maturity:</u>				
Short-term derivatives held for trading	965	970	7	13
Long-term derivatives held for trading	6 180	4 718	1 471	8
Short-term hedging derivatives	967	967	33	-
Long-term hedging derivatives	25 183	25 183	28	1 111
<b>31 December 2007</b>				
Derivatives held for trading	6 264	4 755	1 508	-
Hedging derivatives	16 658	16 658	181	76
<b>Total derivatives</b>	<b>22 922</b>	<b>21 413</b>	<b>1 689</b>	<b>76</b>
<u>Remaining maturity:</u>				
Short-term derivatives held for trading	27	27	1	-
Long-term derivatives held for trading	6 237	4 728	1 507	-
Long-term hedging derivatives	16 658	16 658	181	76

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YEAR ENDED 31 DECEMBER 2008

**16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**Derivatives held for trading**

	Notional amount		Fair values	
	Assets CZK'm	Liabilities CZK'm	Assets CZK'm	Liabilities CZK'm
<b><u>31 December 2008</u></b>				
<u>Foreign exchange derivatives</u>				
Currency swaps	275	280	-	6
Forward	1 220	1 218	12	10
<u>Interest rate derivatives</u>				
Interest rate swaps	150	150	4	5
Cross-currency interest rate swap	5 500	4 040	1 462	-
<b>Total derivatives held for trading</b>	<b>7 145</b>	<b>5 688</b>	<b>1 478</b>	<b>21</b>
<b><u>31 December 2007</u></b>				
<u>Foreign exchange derivatives</u>				
Forward	714	712	1	-
<u>Interest rate derivatives</u>				
Interest rate swaps	50	50	1	-
Cross-currency interest rate swap	5 500	3 993	1 506	-
<b>Total derivatives held for trading</b>	<b>6 264</b>	<b>4 755</b>	<b>1 508</b>	<b>-</b>

The Bank undertakes transactions in foreign exchange and interest rate derivatives mainly with other financial institutions.

**Hedging fair value derivatives**

In accordance with the strategy in the area of managing the interest structure of assets and liabilities, the Bank executed two interest rate swaps in 2005, three interest rate swaps in 2007 and one interest rate swap in 2008, thus hedging the fair value of part of the interest payments from securities issued in CZK and USD and part of the interest payments of the EUR loan provided (it transfers the fixed interest payments to the variable ones).

Testing hedging effectiveness showed that hedging is highly effective and complies with the requirement of IAS 39.

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16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedging fair value derivatives (continued)

	Notional amount		Fair values	
	Assets CZK'm	Liabilities CZK'm	Assets CZK'm	Liabilities CZK'm
<b>31 December 2008</b>				
<u>Interest rate derivatives</u>				
Interest rate swaps	4 340	4 340	61	8
<b>Total hedging derivatives</b>	<b>4 340</b>	<b>4 340</b>	<b>61</b>	<b>8</b>
<b>31 December 2007</b>				
<u>Interest rate derivatives</u>				
Interest rate swaps	3 269	3 269	26	26
<b>Total hedging derivatives</b>	<b>3 269</b>	<b>3 269</b>	<b>26</b>	<b>26</b>

Hedging cash flow derivatives

In 2006 and subsequently in 2007, the Bank arranged a total of nine interest forward starting swaps in order to hedge cash flows from future liabilities of the Bank (renewable revolving loans subject to variable interest and planned bond issues with variable coupons). In addition, the Bank executed an interest swap in 2007 in order to hedge cash flows from the loan received. In 2008, the Bank negotiated 12 other interest rate swaps to hedge cash flows. Through interest swaps it transfers the variable interest payments of the Bank's funds to fixed ones, thus hedging the cash flows of the financial liabilities of the Bank.

Testing the hedging effectiveness showed that hedging is highly effective and it complies with the requirement of IAS 39. The effective part of the change of fair value of hedging interest swaps is recognised in equity. As at 31 December 2008, the Bank has not recognised any profit or loss from hedging ineffectiveness.

	Contract/notional amount		Fair values	
	Assets CZK'm	Liabilities CZK'm	Assets CZK'm	Liabilities CZK'm
<b>31 December 2008</b>				
<u>Interest rate derivatives</u>				
Interest rate swaps	21 810	21 810	-	1 103
<b>Total hedging derivatives</b>	<b>21 810</b>	<b>21 810</b>	<b>-</b>	<b>1 103</b>
<b>31 December 2007</b>				
<u>Interest rate derivatives</u>				
Interest rate swaps	13 389	13 389	155	50
<b>Total hedging derivatives</b>	<b>13 389</b>	<b>13 389</b>	<b>155</b>	<b>50</b>

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16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Split of future cash flows from cash flow derivatives

	Currency	Notional amount		Cash flow	
		Nominal CURR'm	Nominal CZK'm	Opening	Termination
<b><u>31 December 2008</u></b>					
<u>Cash flow hedges of future commitments:</u>					
Interest rate swap	USD	50	968	29.4.2009	29.4.2014
Interest rate swap	EUR	40	1 077	29.1.2009	30.1.2017
Interest rate swap	EUR	50	1 347	29.1.2009	29.1.2014
Interest rate swap	EUR	10	269	29.1.2009	29.1.2016
Interest rate swap	USD	25	484	26.5.2009	26.5.2011
Interest rate swap	EUR	50	1 347	17.8.2009	19.8.2019
Interest rate swap	EUR	50	1 347	15.12.2010	16.12.2013
Interest rate swap	EUR	50	1 347	15.4.2010	18.4.2017
Interest rate swap	EUR	20	539	29.1.2009	29.1.2016
Interest rate swap	USD	25	484	26.5.2009	26.5.2011
Interest rate swap	USD	25	484	29.4.2009	29.4.2014
Interest rate swap	USD	25	484	29.4.2009	29.4.2014
Interest rate swap	USD	25	484	26.5.2009	26.5.2011
Interest rate swap	USD	35	678	26.5.2009	26.5.2011
<u>Cash flow hedges from resources which are subject to variable interest:</u>					
Interest rate swap	EUR	120	3 232	23.5.2007	23.5.2014
Interest rate swap	EUR	50	1 347	23.8.2007	25.8.2014
Interest rate swap	EUR	49	1 320	14.6.2007	14.6.2012
Interest rate swap	EUR	50	1 347	13.6.2008	13.6.2013
Interest rate swap	EUR	50	1 347	15.9.2008	17.9.2012
Interest rate swap	EUR	50	1 347	15.9.2008	15.9.2011
Interest rate swap	EUR	20	539	15.9.2008	15.9.2011
<b><u>31 December 2007</u></b>					
<u>Cash flow hedges of future commitments:</u>					
Interest rate swap	EUR	50	1 331	13.6.2008	13.6.2013
Interest rate swap	EUR	50	1 331	13.6.2008	13.6.2012
Interest rate swap	USD	50	904	26.5.2009	27.5.2014
Interest rate swap	EUR	40	1 065	29.1.2009	30.1.2017
Interest rate swap	EUR	50	1 331	29.1.2009	29.1.2014
Interest rate swap	EUR	10	266	29.1.2009	29.1.2016
Interest rate swap	EUR	50	1 331	13.6.2008	13.6.2011
<u>Cash flow hedges from resources which are subject to variable interest:</u>					
Interest rate swap	EUR	120	3 195	23.5.2007	23.5.2014
Interest rate swap	EUR	50	1 331	23.8.2007	25.8.2014
Interest rate swap	EUR	49	1 304	14.6.2007	14.6.2012

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**17 FINANCIAL INSTRUMENTS AVAILABLE-FOR-SALE AND HELD-TO-MATURITY**

Available-for-sale and held-to-maturity financial assets are represented in the Bank only by the portfolio of investment securities.

Investment securities are fixed rate or floating rate debt securities issued by the Czech Ministry of Finance or by entities with an investment grade rating assigned by foreign rating agencies.

**Sorted by listing status**

	Total		AAA		AA+ to AA-		A+ to A-		lower than A-	
	2008 CZK'm	2007 CZK'm	2008 CZK'm	2007 CZK'm	2008 CZK'm	2007 CZK'm	2008 CZK'm	2007 CZK'm	2008 CZK'm	2007 CZK'm
Securities available-for-sale										
- listed	1 157	374	-	-	-	-	1 157	324	-	50
- unlisted	128	437	-	-	-	30	79	303	49	104
	<b>1 285</b>	<b>811</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30</b>	<b>1 236</b>	<b>627</b>	<b>49</b>	<b>154</b>
Securities held-to-maturity										
- listed	266	1 166	-	733	-	-	266	433	-	-
- unlisted	108	110	-	-	-	-	108	55	-	55
	<b>374</b>	<b>1 276</b>	<b>-</b>	<b>733</b>	<b>-</b>	<b>-</b>	<b>374</b>	<b>488</b>	<b>-</b>	<b>55</b>
<b>Total investment securities</b>	<b>1 659</b>	<b>2 087</b>	<b>-</b>	<b>733</b>	<b>-</b>	<b>30</b>	<b>1 610</b>	<b>1 115</b>	<b>49</b>	<b>209</b>
Repurchase agreement - securities held-to-maturity										
- unlisted	1 349	1 334	-	-	-	667	1 349	667	-	-
	<b>1 349</b>	<b>1 334</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>667</b>	<b>1 349</b>	<b>667</b>	<b>-</b>	<b>-</b>
<b>Pledged assets total</b>	<b>1 349</b>	<b>1 334</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>667</b>	<b>1 349</b>	<b>667</b>	<b>-</b>	<b>-</b>

Pledged assets represent securities used in standard repurchase agreements.

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**17 FINANCIAL INSTRUMENTS AVAILABLE-FOR-SALE AND HELD-TO-MATURITY (continued)**

Sorted by residual maturity

	<u>Total</u>		<u>AAA</u>		<u>AA+ to AA-</u>		<u>A+ to A-</u>		<u>lower than A-</u>	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
<u>Remaining maturity:</u>										
<b>Securities available-for-sale</b>										
- short term	138	151	-	-	-	-	138	151	-	-
- long term	1 147	660	-	-	-	30	1 098	476	49	154
<b>Securities held-to-maturity</b>										
- short term	53	1 166	-	733	-	-	53	433	-	-
- long term	321	110	-	-	-	-	321	55	-	55
<b>Repurchase agreement - securities held-to-maturity</b>										
- long term	1 349	1 334	-	-	-	667	1 349	667	-	-

In 2007 and 2008, there was no impairment of investment securities.

**18 INTANGIBLE ASSETS**

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
<b><u>Software</u></b>		
<u>At 1 January</u>		
Costs	92	85
Accumulated amortisation	(82)	(68)
<b>Net book amount</b>	<b>10</b>	<b>17</b>
<b><u>Year ended 31 December</u></b>		
Opening net book amount	10	17
Additions	8	7
Amortisation costs	(11)	(14)
<b>Closing net book amount</b>	<b>7</b>	<b>10</b>
<b><u>At 31 December</u></b>		
Cost	100	92
Accumulated amortisation	(93)	(82)
<b>Net book amount</b>	<b>7</b>	<b>10</b>

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19 EQUIPMENT

	Buildings CZK'm	Office equipment CZK'm	Motor- vehicles CZK'm	Tangible assets in the course of construction CZK'm	Total CZK'm
<b><u>At 1 January 2007</u></b>					
Cost	-	53	5	3	61
Accumulated depreciation	-	(48)	(3)	-	(51)
<b>Net book amount</b>	<b>-</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>10</b>
<b><u>Year ended 31 December 2007</u></b>					
Opening net book amount	-	5	2	3	10
Additions	-	8	1	8	17
Disposals	-	(10)	-	-	(10)
Net change in accumulated depreciation	-	4	(1)	-	3
<b>Closing net book amount</b>	<b>-</b>	<b>7</b>	<b>2</b>	<b>11</b>	<b>20</b>
<b><u>At 31 December 2007</u></b>					
Cost	-	51	6	11	68
Accumulated depreciation	-	(44)	(4)	-	(48)
<b>Net book amount</b>	<b>-</b>	<b>7</b>	<b>2</b>	<b>11</b>	<b>20</b>
<b><u>Year ended 31 December 2008</u></b>					
Opening net book amount	-	7	2	11	20
Additions	-	11	2	3	16
Disposals	-	(10)	(1)	(13)	(24)
Net change in accumulated depreciation	-	2	-	-	2
<b>Closing net book amount</b>	<b>-</b>	<b>10</b>	<b>3</b>	<b>1</b>	<b>14</b>
<b><u>At 31 December 2008</u></b>					
Cost	-	52	7	1	60
Accumulated depreciation	-	(42)	(4)	-	(46)
<b>Net book amount</b>	<b>-</b>	<b>10</b>	<b>3</b>	<b>1</b>	<b>14</b>

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20 OTHER ASSETS

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
Insurance benefit receivable from EGAP	-	78
Receivable from services provided to clients relating to business	17	-
Receivables - state subsidy	100	69
Prepayments and accrued income	23	32
Other receivables	-	1
	<u>140</u>	<u>180</u>
<u>Remaining maturity:</u>		
Short-term other assets	140	166
Long-term other assets	-	14

The Bank did not recognise any new insurance claim receivable from EGAP in 2008 (2007: CZK 0 million). These receivables are also cashed as soon as all contractual obligations are met.

21 FINANCIAL LIABILITIES HELD AT AMORTISED COST

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
Deposits, loans and other financial liabilities at amortized cost	10 771	7 964
Deposits and other financial liabilities at amortized cost due to banks	8 105	5 911
Deposits and other financial liabilities at amortized cost due to clients	2 636	1 985
Other undifferentiated financial liabilities at amortized cost	30	68
Issued bonds at amortized cost	<u>28 475</u>	<u>23 455</u>
<b>Total financial liabilities at amortized cost</b>	<u><b>39 246</b></u>	<u><b>31 419</b></u>
<u>Remaining maturity:</u>		
Current	15 382	7 662
Non-current	<u>23 864</u>	<u>23 757</u>

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**21 FINANCIAL LIABILITIES HELD AT AMORTISED COST (continued)**

**To banks**

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
<u>Short term deposits received</u>		
- fixed interest rates	309	516
- variable interest rates	<u>1 578</u>	<u>1 486</u>
	<b>1 887</b>	<b>2 002</b>
<u>Borrowings</u>		
- fixed interest rates	<u>6 218</u>	<u>3 909</u>
	<b>6 218</b>	<b>3 909</b>
<b>Total financial liabilities at amortized cost due to banks</b>	<b><u>8 105</u></b>	<b><u>5 911</u></b>
<u>Remaining maturity:</u>		
Current	6 076	3 622
Non-current	<u>2 029</u>	<u>2 289</u>

**To clients**

Escrow deposits are deposits from clients as a form of cash security to credit lines given.

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
<u>Current accounts</u>		
- fixed interest rates	242	136
- interest free deposits	<u>386</u>	<u>413</u>
	<b>628</b>	<b>549</b>
<u>Term deposits</u>		
- fixed interest rates	1 530	623
- variable interest rates	<u>-</u>	<u>54</u>
	<b>1 530</b>	<b>677</b>
<u>Escrow accounts</u>		
- variable interest rates	<u>446</u>	<u>744</u>
	<b>446</b>	<b>744</b>
<u>Other short term liabilities</u>		
- fixed interest rates	22	3
- interest free liabilities	<u>10</u>	<u>12</u>
	<b>32</b>	<b>15</b>
<b>Total financial liabilities at mortized cost due to clients</b>	<b><u>2 636</u></b>	<b><u>1 985</u></b>
<u>Remaining maturity:</u>		
Current	2 269	1 248
Non-current	<u>367</u>	<u>737</u>

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21 FINANCIAL LIABILITIES HELD AT AMORTISED COST (continued)

Undifferentiated

	2008 CZK'm	2007 CZK'm
Miscellaneous payables - purchase of properties	2	7
Insurance premium due to EGAP	3	46
Deposit Insurance Fund	2	1
Legal services	4	-
Other payables	2	-
Payables from social expenses	2	2
Due to employees	9	7
Due to social security and health insurance authorities	3	4
Clearance account with state budget	3	1
<b>Total financial liabilities at amortized cost (without sector differentiation)</b>	<b>30</b>	<b>68</b>
<u>Remaining maturity:</u>		
Short-term other assets	30	68

Debt securities in issue

Currency	Issued	Maturity	type of rate	31 December 2008		31 December 2007	
				CZK'm	%	CZK'm	%
CZK	11 July 2000	11 July 2010	FIX	5 697	6,950	5 645	6,950
USD	24 May 2002	24 May 2009	FIX	7 007	5,750	6 519	5,750
USD	5 November 2003	5 November 2008	FIX	-	-	2 724	3,750
EUR	23 May 2007	23 May 2016	FLOAT	3 229	4,974	3 204	4,674
EUR	23 May 2007	23 May 2014	FLOAT	1 345	4,964	1 335	4,664
EUR	23 August 2007	23 August 2012	FIX	1 370	4,682	1 354	4,682
EUR	23 November 2007	23 November 2012	FIX	1 352	4,354	1 337	4,354
EUR	23 November 2007	23 November 2017	FIX	1 352	4,555	1 337	4,555
EUR	31 January 2008	31 January 2011	FIX	2 509	3,860	-	-
EUR	13 June 2008	13 June 2013	FLOAT	1 342	5,270	-	-
EUR	15 September 2008	15 September 2011	FLOAT	1 908	5,365	-	-
EUR	15 September 2008	15 September 2012	FLOAT	1 364	5,385	-	-
				<b>28 475</b>		<b>23 455</b>	
<u>Remaining maturity:</u>							
Current				7 007		2 724	
Non-current				21 468		20 731	

Unlisted bonds have a total face value of EUR 50 million and were issued on 13 August 2007 (due date 13 August 2012). All other bonds are listed.

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**21 FINANCIAL LIABILITIES HELD AT AMORTISED COST (continued)**

**Debt securities in issue (continued)**

Bonds issued in 2000 with a total face value of CZK 5,500 million are listed at the Prague Stock Exchange.

Bonds issued in 2002 with a total face value of USD 350 million and individual bonds issued in 2007 and in 2008 are listed at the Luxembourg Stock Exchange.

**22 OTHER LIABILITIES**

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
Accruals and deferrals	17	10
Deferred income	9	7
Accrued expenses	8	3
Provision for social expenses	-	2
Foreign exchange differences from spot operations	2	-
Miscellaneous payables	<u>1</u>	<u>16</u>
	<b><u>20</u></b>	<b><u>28</u></b>
<u>Remaining maturity:</u>		
Short-term other liabilities	8	22
Long-term other liabilities	<u>12</u>	<u>6</u>

**23 PROVISION FOR LONG-TERM EMPLOYEE BENEFITS**

	<u>Note</u>	<u>2008</u>	<u>2007</u>
			CZK'm
<b>Provision for employment benefits</b>			
<u>At 1 January</u>		5	-
Additions to provision		1	5
Usage of provision		<u>(4)</u>	<u>-</u>
<u>At 31 December</u>		2	5
<b>Provision for guarantees given</b>			
<u>At 1 January</u>		-	-
Additions to provision		<u>15</u>	<u>-</u>
<u>At 31 December</u>		15	-
<b>Total provisions</b>	23	<b><u>17</u></b>	<b><u>5</u></b>
<b>Net creation of provisions</b>	11	<b><u>12</u></b>	<b><u>5</u></b>

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24 DEFERRED INCOME TAXES

Deferred income tax for 2008 is calculated using a tax rate for years of expected use of the deferred tax in the amount of 20% for 2009 and 19% for subsequent years (2007: 21%, 20% and 19%).

The movement on the deferred income tax account is as follows:

	Note	2008 CZK'm	2007 CZK'm
<b><u>At 1 January</u></b>		<b>(23)</b>	<b>46</b>
Deferred fee and interest income – change in amount		(1)	(4)
Tax non-deductible creation of allowances for losses on loans		16	(43)
Total income statement charge	12	15	(47)
Available-for-sale securities:			
- fair value remeasurement reported in revaluation reserve	26	-	1
Cash flow hedges:			
- fair value remeasurement		235	(25)
- fair value changes realised to income statement		9	2
<b><u>At 31 December</u></b>		<b><u>236</u></b>	<b><u>(23)</u></b>

Deferred income tax assets and liabilities incurred for items shown below:

	2008 CZK'm	2007 CZK'm
<b><u>Deferred income tax liabilities</u></b>		
Accelerated tax depreciation	(1)	-
Cash flow hedges	-	(28)
	(1)	(28)
<b><u>Deferred income tax assets</u></b>		
Deferred fee and interest income	4	4
Tax non-deductible creation of allowances for losses on loans	16	-
Available-for-sale securities	1	1
Cash flow hedges	216	-
	237	5
<b>Net deferred income tax assets/(liabilities)</b>	<b><u>236</u></b>	<b><u>(23)</u></b>

Deferred income tax assets and liabilities are offset since there is a legally enforceable right to offset current tax assets against current tax liabilities.

# ČESKÁ EXPORTNÍ BANKA, A.S.

## NOTES TO FINANCIAL STATEMENTS

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### 25 SHARE CAPITAL

Under Act No. 58, at least two thirds of the Bank's shares must be owned by the Czech state. The state's share rights are executed by four ministries (Note 1). The remaining shares must be owned by EGAP.

	Number of shares #	Nominal value per share CZK'm	Total nominal value CZK'm	Share %
<b><u>31 December 2008</u></b>				
Czech state	500	1	500	
Czech state	<u>100</u>	10	<u>1 000</u>	
Czech state total*	600		1 500	75,0
EGAP	<u>50</u>	10	<u>500</u>	<u>25,0</u>
	<b><u>650</u></b>		<b><u>2 000</u></b>	<b><u>100,0</u></b>
<b><u>31 December 2007</u></b>				
Czech state	350	1	350	
Czech state	<u>100</u>	10	<u>1 000</u>	
Czech state total*	450		1 350	73,0
EGAP	<u>50</u>	10	<u>500</u>	<u>27,0</u>
	<b><u>500</u></b>		<b><u>1 850</u></b>	<b><u>100,0</u></b>

\* Ministry of Finance, Letenská 525/15, Praha 1  
Ministry of Industry and Trade, Na Františku 1039/32, Praha 1  
Ministry of Foreign Affairs, Loretánské nám. 101/5, Praha 1  
Ministry of Agriculture, Těšnov 65/17, Praha 1

### 26 RESERVES

#### Statutory reserve

In accordance with the Commercial Code, the Bank is required to set aside a statutory reserve in equity from profit or from shareholders' contributions.

Five percent of net profit shall be allocated to the statutory reserve until the level of 20% of share capital is achieved. This reserve can be used exclusively to cover losses. The share capital of the Bank was increased by CZK 150,000,000 to CZK 2,000,000,000 during 2008. The statutory reserve is to be increased up to 20% of the share capital from the profit distribution of the year 2008.

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26 RESERVES (continued)

Revaluation reserve

Revaluation reserve on available-for-sale securities

	Note	2008 CZK'm	2007 CZK'm
<b><u>At 1 January</u></b>		<b>(5)</b>	-
Net gains / (losses) from changes in fair value		5	(6)
Deferred income taxes	24	-	1
<b><u>At 31 December</u></b>		<b>-</b>	<b>(5)</b>

Revaluation reserve on cash flow hedges

	Note	2008 CZK'm	2007 CZK'm
<b><u>At 1 January</u></b>		<b>105</b>	<b>15</b>
Net gains / (losses) from changes in fair value		(1 169)	122
Deferred income taxes	24	235	(25)
Amount charged to income statement from equity		(43)	(9)
Deferred income taxes	24	9	2
<b><u>At 31 December</u></b>		<b>(863)</b>	<b>105</b>

According to the approved strategy, the Bank uses interest risk management for interest rate swaps. Due to the recent decrease of USD and EUR interest rates, the actual fair value of contracted swaps decreased as well, which is reflected in the negative value of the revaluation reserve.

Export risk reserve

Export risk reserve is set aside from retained earnings to cover increased expected credit risk associated with the operation of supported financing and is distributable based on the principles approved by the Board only.

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27 CONTINGENT LIABILITIES AND COMMITMENTS

The contractual amounts of the off-balance sheet financial instruments that commit the Bank to grant credit to clients and connected accepted guarantees and collaterals are as follows:

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
<b><u>Credit commitments</u></b>		
Non-payment guarantees *)	2 930	3 578
Irrevocable commitments	20 672	18 694
Guarantees from confirmed letter of credit	<u>68</u>	<u>426</u>
<b>Total</b>	<b><u>23 670</u></b>	<b><u>22 698</u></b>
	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
<b><u>Accepted guarantees</u></b>		
Payment guarantees	4 366	1 272
Non-payment guarantees *)	<u>62</u>	<u>111</u>
	<b><u>4 428</u></b>	<b><u>1 383</u></b>
Insurance with state subsidy	46 634	40 854
Insurance without state subsidy	<u>247</u>	<u>138</u>
	<b><u>46 881</u></b>	<b><u>40 992</u></b>
<b><u>Collateral accepted</u></b>		
Cash	508	340
Securities	<u>720</u>	<u>-</u>
	<b><u>1 228</u></b>	<b><u>340</u></b>
Securities accepted in reverse repo transactions	<b><u>392</u></b>	<b><u>-</u></b>

\*Non-payment guarantees are guarantees under which the Bank is liable for non-monetary obligations of the customer.

Contingent assets (guarantees, collateral and insurance accepted) are stated at value, which represents the expected fulfilment from contingent assets by the Bank in the case of a debtor's failure and subsequent foreclosure.

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**27 CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

The Bank is committed to future minimum lease payments under the operating lease of its head office building of indefinite duration and 12-month notice period, as follows:

	<u>2008</u>	<u>2007</u>
	CZK'm	CZK'm
Within 1 year	<u>15</u>	<u>15</u>

**28 CASH AND CASH EQUIVALENTS**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three-month maturity from the date of acquisition.

	<u>Note</u>	<u>2008</u>	<u>2007</u>
		CZK'm	CZK'm
Cash and balances with central banks	14	442	7
Placements with other banks	15	<u>3 867</u>	<u>3 818</u>
		<u><b>4 309</b></u>	<u><b>3 825</b></u>

**29 RELATED-PARTY TRANSACTIONS**

The Bank provides specialised services supporting export activities in accordance with Act No. 58. This Act also determines the structure of the shareholders; the Bank is fully controlled by the Czech state which owns 75% of the Bank's share capital directly and 25% of the share capital indirectly via EGAP, which is fully owned by the Czech state.

Related-party transactions are concluded within normal business transactions. Related parties are identified based on the criteria of IAS 24.

Transactions with related parties are conducted in the normal course of business. All fees related to collaterals and guarantees received, including credit insurance premiums, are borne by the debtors.

The volumes and outstanding balances of related-party transactions as at the balance sheet date and related expense and income for the year are as follows:



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**29 RELATED-PARTY TRANSACTIONS (continued)**

**Balances with entities controlled by the same controlling entity (Czech state)  
(continued)**

	2008			2007		
	Balance at December 31	Balance at January 1	Income	Balance at December 31	Balance at January 1	Income
	CZK'm	mil. Kč	CZK'm	CZK'm	mil. Kč	CZK'm
<b>Commitments and guarantees given</b>						
Škodaexport, a.s.	-	2 347	-	2 347	1 813	7
Technoexport, a.s.	2	4	-	4	-	-
<b>Total</b>	<b>2</b>	<b>2 351</b>	<b>-</b>	<b>2 351</b>	<b>1 813</b>	<b>7</b>

Movements on the Czech state subsidy account for the losses arising from and covered by the Czech state are disclosed in Note 8.

**Remuneration of Board of Directors and Supervisory Board**

	2008 CZK'm	2007 CZK'm
Short term employee benefits (financial and company benefits)	25	15
Remuneration and short term benefits of Supervisory Board members	3	2
<b>Total</b>	<b>28</b>	<b>17</b>

The top executive team comprises 5 members of the Board of Directors and 4 members of the Supervisory Board.

The year-on-year increase in management benefits is caused in particular by the organisational changes made during 2008.

**30 RECONCILIATION OF SELECTED ITEMS**

A change in the write-off of receivables process and the related estimate of the related allowances created in connection with EGAP insurance received was made in 2008. Consequently, the Bank recognised additional income tax expense. Due to this change, the Bank's tax payable for 2007 increased by CZK 30,000,000 and for 2006 by CZK 43,000,000. The correction in the total amount of CZK 73,000,000 was recognised in these financial statements as a correction of tax expense for the years 2006 and 2007.

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

**30 RECONCILIATION OF SELECTED ITEMS (continued)**

The commitment fee of CZK 27,000,000 recognised in 2007 arising on loan commitments was reclassified from Fee and commission income to Interest and similar income.

**Reconciliation of selected Income statement items**

	2007			2006		
	Originally CZK'm	Change	Restated CZK'm	Originally CZK'm	Change	Restated CZK'm
Interest and similar income	1 353	27	1 380			
Fee and commission income	64	(27)	37			
Income tax expense	40	30	70	34	43	77
Profit for the year	110	(30)	80	99	(43)	56

**Reconciliation of selected Balance sheet items**

	2007			2006		
	Originally CZK'm	Change	Restated CZK'm	Originally CZK'm	Change	Restated CZK'm
Current income tax assets	31	(31)	-	-	-	-
Deferred income tax assets	-	-	-	46	-	46
<b>Total assets</b>	<b>34 315</b>	<b>(31)</b>	<b>34 284</b>	<b>25 675</b>	<b>-</b>	<b>25 675</b>
Current income tax liabilities	0	37	37	40	43	83
Deferred income tax liabilities	18	5	23	-	-	-
<b>Total liabilities</b>	<b>31 546</b>	<b>42</b>	<b>31 588</b>	<b>23 101</b>	<b>43</b>	<b>23 144</b>
Retained earnings	112	(75)	37	101	(45)	56
Other special fund						
<b>Total equity</b>	<b>2 769</b>	<b>(73)</b>	<b>2 696</b>	<b>2 574</b>	<b>(43)</b>	<b>2 531</b>
<b>Total liabilities and equity</b>	<b>34 315</b>	<b>(31)</b>	<b>34 284</b>	<b>25 675</b>	<b>-</b>	<b>25 675</b>

**Reconciliation of selected Statement of changes in equity items**

	Retained earnings			Export risk reserve			Total		
	Originally CZK'm	Change CZK'm	Restated CZK'm	Originally CZK'm	Change CZK'm	Restated CZK'm	Originally CZK'm	Change CZK'm	Restated CZK'm
<b>At 1 January 2006</b>	<b>33</b>	<b>(2)</b>	<b>31</b>	<b>227</b>	<b>2</b>	<b>229</b>	<b>2 459</b>	<b>-</b>	<b>2 459</b>
Net profit for the year	99	(43)	56	-	-	-	99	(43)	56
Total recognised income	99	(43)	56	-	-	-	115	(43)	72
<b>At 31 December 2006</b>	<b>101</b>	<b>(45)</b>	<b>56</b>	<b>238</b>	<b>2</b>	<b>240</b>	<b>2 574</b>	<b>(43)</b>	<b>2 531</b>
<b>At 1 January 2007</b>	<b>101</b>	<b>(45)</b>	<b>56</b>	<b>238</b>	<b>2</b>	<b>240</b>	<b>2 574</b>	<b>(43)</b>	<b>2 531</b>
Net profit for the year	110	(30)	80	-	-	-	110	(30)	80
Total recognised income	110	(30)	80	-	-	-	195	(30)	165
<b>At 31 December 2007</b>	<b>112</b>	<b>(75)</b>	<b>37</b>	<b>337</b>	<b>2</b>	<b>339</b>	<b>2 769</b>	<b>(73)</b>	<b>2 696</b>

**ČESKÁ EXPORTNÍ BANKA, A.S.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2008**

### **31 SUBSEQUENT EVENTS**

There were no events, which have occurred subsequent to the year-end until the date of preparation of the financial statements, which would have a material impact on the financial statements of the Bank as at 31 December 2008.

Date of preparation:  
13 March 2009

Signed on behalf of the Board of Directors:

A handwritten signature in blue ink, appearing to be 'L. Pokorný', is written over the signature line.

Lubomir Pokorny  
Chairman of the Board of Directors and General Manager

ČESKÁ EXPORTNÍ BANKA, A.S.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008



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#### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Česká exportní banka, a.s. ("the Bank"), which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Bank are disclosed in note 1 to these financial statements.

#### *Board of Directors' Responsibility for the Financial Statements*

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

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

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ČESKÁ EXPORTNÍ BANKA, A.S.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2008



Shareholders of Česká exportní banka, a.s.  
Independent auditor's report

*Auditor's Responsibility (continued)*

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

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

13 March 2009

A handwritten signature in blue ink, appearing to read "PricewaterhouseCoopers Audit s.r.o.".

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

A handwritten signature in blue ink, appearing to read "Petr Kříž".

Petr Kříž  
Auditor, Licence No. 1140

**Note**

Our report has been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

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