

Annual Report 2007

Czech Export Bank

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A. Statement of the Chairman of the Board of Directors

The volume of newly signed financial agreements for the support of activities pursued by Czech exporters and investors as well as their international partners in the form of , guarantees, and other products of the Czech Export Bank reached almost CZK 20 billion in 2007. Almost 87% of new financial commitments represented direct support extended to foreign trade transactions (i.e. export credits, guarantees, financing of investments). The balance of 13% of the volume of the newly signed credit agreements related to the financing of production for export, which confirms the continued high level of interest on the part of exporters in comprehensive financing of their export projects and the bank's capability of satisfying such interest. Compared to 2006, the Bank's balance sheet total increased by nearly 34% to CZK 34.3 billion.

When comparing the Bank's results for the last year with those of 2006, it can be noted that the number of transactions financed by the Bank increased from 87 to 116, the credit portfolio volume went up from CZK 20 billion to just below 24 billion, and the number of employees increased from 115 to 116. These developments have also been accompanied by portfolio diversification in terms of the size of transactions. While in the past it has often been the case that 3 individual loans represented more than 50% of the total volume, 60% of the volume was distributed over 12 credit agreements in 2007.

The requirements of Czech exporters are increasingly directed towards the preparation of more structured and sophisticated operations and transactions. This is related to the stabilization in the business and banking sector in both the Czech Republic and the export destination countries, as well as to the increasing international competition. Nowadays it goes without saying that an offer for a high-quality delivery is accompanied by an offer for optimum financing, of which the buyer is benefiting as well. In a number of cases, the Czech Export Bank now arranges for these transactions under a mutually advantageous cooperation with the commercial banking sector.

The Bank currently provides export financing for domestic companies selling their products to 30 countries around the world. An increasing share goes to Russia and other countries of the former Commonwealth of Independent States. Major export transactions in Turkey and China, Bulgaria, Montenegro, Georgia, Pakistan or Mongolia were financed by the Bank. Engineering technologies, especially energy and engineering lines for the particular industrial sectors, account for the largest share of the exports financed by the Czech Export Bank. There are also some new phenomena consisting in financing of investments abroad when the Czech capital seeks higher profitability often in distant countries, particularly in Asia, as well as transactions in which the Czech exporter acts as the general contractor for more sophisticated units, such as infrastructure-related projects or extensive developer activities.

The state support for exports in the Czech Republic is a fully operational and well-designed system; this is manifested not only by the close cooperation between the Bank and other institutions involved in entrepreneurship support, but also by the increasingly stronger cooperation between the Bank and the Export Guarantee and Insurance Corporation (EGAP). In general, I am pleased to be able to state that – with its activities in 2007 – the Czech Export Bank has once again contributed to keeping up the momentum of the Czech exports as a significant element influencing the positive development of the entire economy and playing, at the same time, an important role in stabilizing the employment and social domain.

Ing. Josef Tauber
Chairman of the Board of Directors and Chief Executive Officer

Statement of the Chairman of the Supervisory Board

The Czech Export Bank focuses on the segment of financial services provided to Czech businesses and their foreign partners in relation to the export of Czech products and services. Its activities are designed to create favourable conditions for both parties of the trade relationship in terms of both the maturity period and the price. All this takes place under the generally accepted international terms and conditions, to which the Czech Republic has committed itself in the field of financial export support. Thanks to its abundant experience with the financing of the largest foreign trade transactions carried out by Czech exporters, and also with the financing of export contracts for smaller projects or partial deliveries, the Bank assists the small, medium and large Czech exporters and producers on one hand and, on the other hand, it indirectly creates conditions for higher employment and qualification development of the domestic labour force and contributes to the development of the Czech entrepreneurial environment. It is also of great importance that most of the Bank's products are now extended to the foreign customers and partners of Czech companies under such favourable conditions, making the Czech goods and services attractive in quality and price as well as in the cost-efficiency and periods of financing. One of the not very frequently mentioned benefits is also related to the fact that Czech entities are able to allocate such quickly available funds into further production and technological development. All these activities are carried out under uniform international rules for public aid in this field.

The orientation and emphasis on the versatile nature of the export financing products offered by the Bank has proven its worth in the recent years. This scope of the Bank's financial services is highly valued by the exporters as a useful coverage of their export-related financial needs. In addition to the traditional financing of goods exports, the Czech Export Bank sees its new role in offering a product range for infrastructure and development project financing. It currently implements a number of structured and project financing models in cooperation with its customers, making it possible to execute projects on a much larger scale. At the same time, the Bank develops its mission through an offer of favourable financing products designed to meet the intentions of Czech investors to build new production capacities abroad or to acquire equity interests in such companies.

In 2007, the Bank has also continued in its usual practice to assess the customer's and supplier's risks carefully. It successfully managed its transition to the long prepared risk management system known as Basel II.

At present, the Bank is facing a new challenge – how to further extend and improve the quality of its activities. We are evaluating our experience from abroad, seeking feedback with the Czech Chamber of Commerce and the Confederation of Industry of the Czech Republic, and we are holding a dialog with other banking institutions. We would like to translate the results of this discussion into new products and a new organizational structure of the Bank as soon as possible.

Doc. Ing. Václav Petříček, CSc.
Chairman of the Supervisory Board

B. Profile of the Czech Export Bank

1. Shareholders and Share Capital

The Czech Export Bank (hereinafter the “CEB”) was founded by way of its Articles of Incorporation on 22 December 1994. Its current shareholders are as follows:

The State, holding 73% of shares; its shareholder rights are exercised by the following organizations:

The Ministry of Finance
The Ministry of Industry and Trade
The Ministry of Foreign Affairs
The Ministry of Agriculture

and the Export and Guarantee and Insurance Corporation holding 27% of shares.

The CEB was established on the day of its entry into the Companies Register of 1 March 1995 and its registered office is at Prague 1, Vodičkova 34/701, postal code 111 21. Telephone: +420 222 843 111, Fax: +420 224 211 266 and E-mail: ceb@ceb.cz. It is entered in the Companies Registered administered by the Municipal Court in Prague, Section B, File No. 3042.

Registered capital CZK 1,850,000,000

(in words: one billion eight hundred and fifty million Czech crowns),

Shares 150 pcs. registered common shares with a nominal value of CZK 10,000,000 in book-entry form

350 pcs. registered common shares with a nominal value of CZK 1,000,000 in book-entry form

2. Business Activities

The CEB began to act as a bank subject to a licence issued by the Czech National Bank on 6 February 1995, and amended by the Czech National Bank on 27 June 1996. Presently, the CEB acts under a banking licence issued by the Czech National Bank under Ref. No. 2003/3966/520, dated 19 September 2003, which became legally enforceable on the same date, and an amended banking licence issued by the Czech National Bank under Ref. No. 2003/4067/520, dated 30 September 2003, which became legally enforceable on 2 October 2003. The banking licence replaced the original licence, under which the CEB was allowed to act as a bank. By way of its decision of 16 December 2005, Ref. No. 2005/3982/530, which became legally enforceable on 10 January 2006, the Czech National Bank extended the scope of business activities performed by the CEB. As at 31 December 2007, the CEB performed banking services pursuant to Act No. 21/1992 Coll., on Banks, as amended, in the following scope:

- a) Acceptance of deposits from the general public;
- b) Provision of credits;
- c) Payment system and clearing;
- d) Issuing of guarantees;
- e) Opening of letters of credit;
- f) Collection of payments;

- g) Trading on its own account or on clients' account in foreign currencies and in gold to the extent of:
- Trading on its own account in pecuniary means denominated in foreign currencies;
 - Trading on its own account in negotiable securities issued by foreign governments;
 - Trading on its own account or on clients' account in the rights and obligations appraisable in money that derive from the above-mentioned foreign currencies;
 - Trading on its own account in foreign bonds;
- h) Investing in securities on its own account to the extent of:
- Negotiable securities issued by the Czech Republic, the Czech National Bank and foreign governments;
 - Investing in foreign bonds and mortgage bonds;
 - Investing in securities issued by legal entities with registered office in the territory of the Czech Republic;
- i) Provision of banking information;
- j) Provision of consulting services with respect to capital structure, industrial strategy and related issues, as well as provision of advisory services and services with respect to mergers and acquisitions of companies;
- k) Activities that are directly related to the activities mentioned in the CEB's banking licence.

3. Position on the Local Banking Market

From the point of view of the total assets, the CEB is a bank that now holds close to 1% of the aggregated assets of all commercial banks. With its product range based on its narrow specialization as a bank designed, under the state pro-export policy, to finance exports with state support allowing to take full advantage of the possibilities that are offered for this field by international agreements, the CEB differs significantly from other commercial banks. Its sphere of activity consists in providing export financing with state support (hereinafter the "supported financing"), in particular as regards long-term credits denominated in foreign currencies. In this field, the CEB occupies a much more significant position compared to large banking institutions that are mainly active on the domestic market.

31 December (in CZK million)	2006			2007		
	Banks total (in CZK million)	CEB (in CZK million)	Share of CEB	Banks total (in CZK million)	CEB (in CZK million)	Share of CEB
Total assets	3,132,514	25,675	0.82%	3,717,106	34,315	0.92%
of which: Deposits in loans to and other receivables from other banks	371,849	12,385	3.33%	449,862	11,223	2.49%
Loans and other receivables from clients	1,263,654	9,009	0.71%	1,785,838	17,671	0.99%
of which: in CZK	1,072,015	42	0.00%	1,553,834	404	0.03%
in FX	191,639	8,967	4.68%	232,004	17,268	7.44%
of which: for current assets, export, import, inventories	41,848	7,981	19.07%	51,497	11,212	21.77%

Source: CNB bank statistics and CEB

The individual parameters describing the activities performed by the CEB can be compared with similar parameters achieved by other banks active on the Czech banking market based on the data, which the banks are obliged to disclose pursuant to Decree No. 123/2007 Coll., on Prudential Rules for Banks, Credit Unions and Investment Firms. Based on the selected disclosed data, the CEB ranks as follows among the 17 banks monitored:

- The CEB is a medium-sized bank compared to the other banks. It ranks 12th from the point of view of the total assets, with a leading position among the last third of the banks that can be compared based on the disclosed data.
- However, it ranks third as regards the value of assets per employee.
- When comparing the administrative costs per employee, it ranks at position 9 and is CZK 250 thousand below the average level of this parameter provided by the banks monitored. It is thanks to the relatively low administrative costs that the CEB achieves the second place in the ratio of asset value and unit administrative costs.
- The CEB ranks 11th among the banks monitored as regards the profit per employee. The level of the generated profit does not constitute one of the strategic indicators used to evaluate the Bank's performance. A priority for the shareholders' assessment of the CEB is the extent and quality of the supported financing and related services provided by the Bank.
- When comparing the level of direct expenses per employee, the CEB ranks seventh, only slightly above the average among the 15 banks, which provided these data. In this context, it is essential to point out that this indicator is influenced by the fact that the CEB does not have any counters and has a low share of low-skilled employees.

C. Report of the Board of Directors on Business Activities of the Czech Export Bank and on its Assets in 2007

I. Meeting the Defined Objectives

1. Factors with significant influence on the Bank's activities

The Czech Export Bank (hereinafter the “CEB” or the “Bank”) was established in order to take advantage of the possibilities of state support in export financing, while respecting the international rules.

1.1. Development of Czech exports

The crucial factors affecting the CEB's activities are the dynamics of the Czech exports as such, changes in their structure, the interest of Czech exporters in certain territories as well as the export development in those commodity groups, in which supported financing plays an essential role as regards the execution of business transactions.

Export is a macroeconomic indicator; in 2007 it achieved the best results ever throughout the history of the independent Czech Republic. Overall it jumped from CZK 2,145 billion in 2006 to CZK 2,466 billion, i.e. a year-on-year increase by 15%.

The commodity group, which contributes the most to the current dynamics of the Czech exports, is the group of machinery and transport equipment, which raised its share in the total Czech exports to 54.0% compared to 53.2% in 2006. It is also this commodity group that constitutes the key segment for the Bank's activities and for the entire supported financing, particularly for those subgroups, in which it is virtually impossible and unimaginable to export anything without secured financing, especially in medium and long term. These groups include SITC 71 – Power generating machinery and equipment and SITC 72 – Specialized industrial machinery. The share of both these commodity groups in the total Czech exports remained practically at the same level in both 2006 and 2007. As for SITC 71, it accounted for 3.0% in both reporting years; as for SITC 72, its share increased by 0.1 p.p. to 3.2% in 2007.

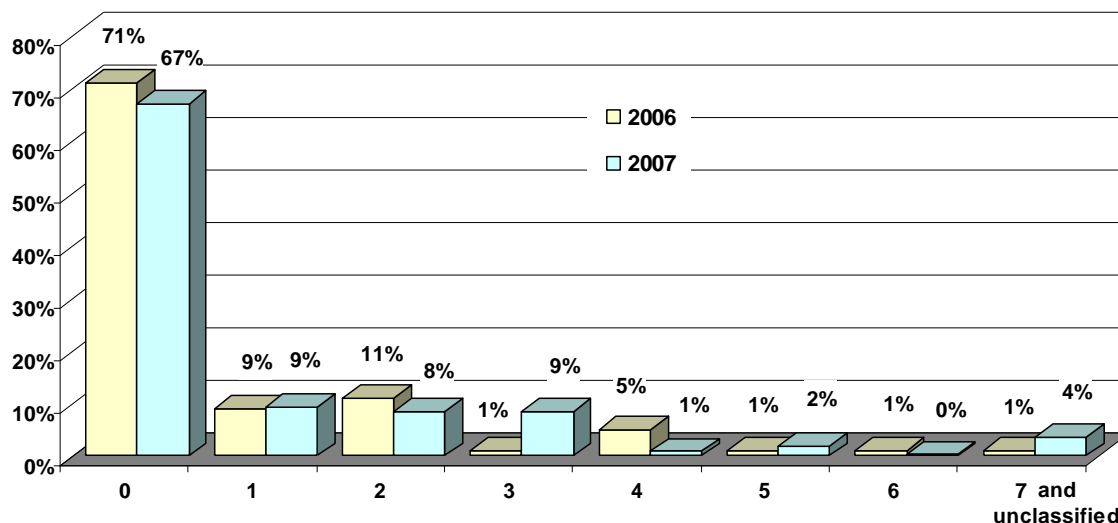
There have been no major changes in the year-on-year comparison from the territorial structure point of view. The economy has reported an increase in the share of goods exported to former CIS countries, which was the highest among the specified groups, as well as increased shares of developing countries and partially also other countries. The shares of these above-mentioned groups of countries showed a year-on-year increase, and it is exactly these groups of countries which stand in the centre of the CEB's attention when providing supported financing.

Selected characteristics of the territorial structure of the Czech exports are shown below

	2006	2007
Border countries with the Czech Republic	51.0%	50.5%
Top 10 countries with the highest share in exports	75.4%	75.1%
EU 15 countries	65.6%	64.1%
EU 25 countries	83.9%	83.5%
EU 27 countries	-	85.1%
Former CIS (Commonwealth of Independent States) countries	3.5%	3.8%
European transitional countries	2.6%	0.8%
Developing countries	3.3%	3.5%
Other countries (with centrally controlled economy)	0.5%	0.6%
Developed countries outside EU	6.1%	5.9%

Source: Czech Statistical Office

Czech exports by country groups according to OECD

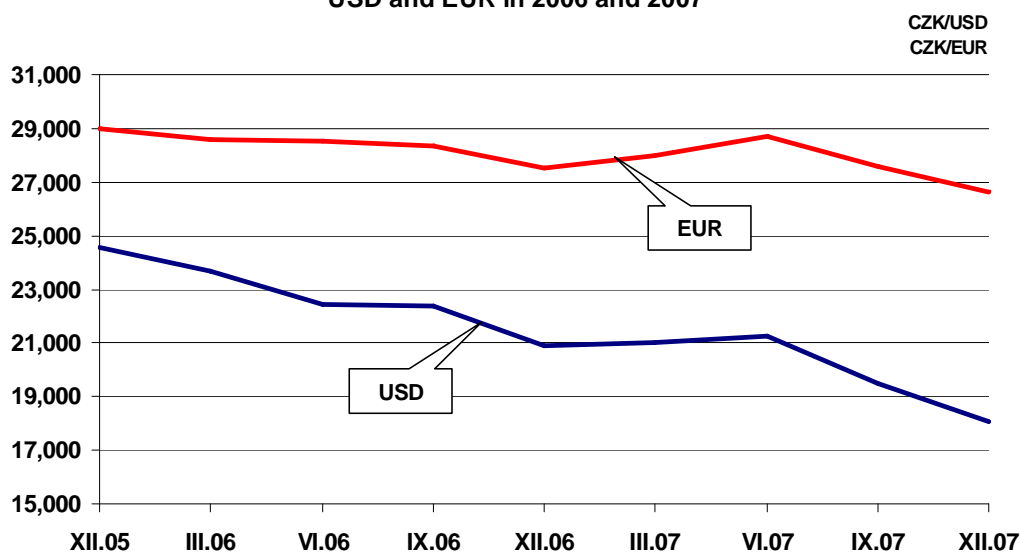


Source: Czech Statistical Office and OECD

1.2. Development of CZK/USD and CZK/EUR exchange rates

One of the important factors influencing the CEB's activities primarily in the financial aspect is the development of the exchange rate of the Czech crown against the U.S. dollar and the euro, i.e. the contractual currencies accounting for more than 98% of the credit portfolio as at 31 December 2007. Both currencies have depreciated against CZK during 2007 at practically the same pace as in 2006. The impact of the exchange rate proved to be crucial during 2007 since it prevented an even more substantial increase in the credit portfolio and reduced the value of certain other financial indicators.

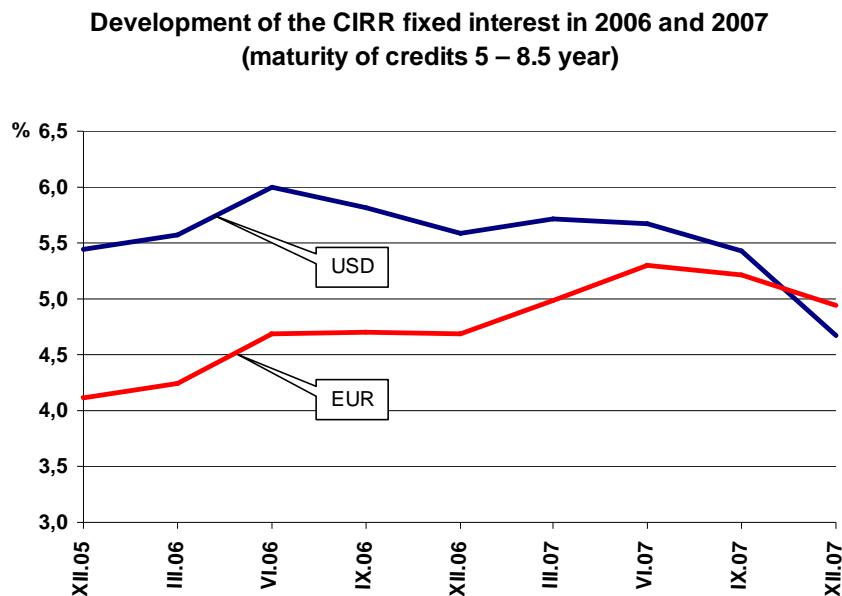
Development of the foreign exchange rates USD and EUR in 2006 and 2007



Source: CNB

1.3. Development of interest rates

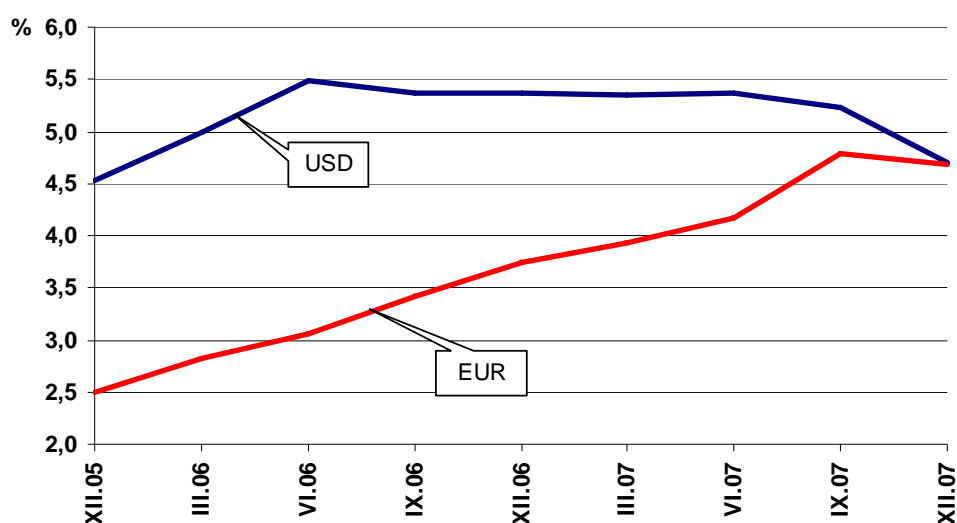
The activities of the CEB, particularly the development of its economic indicators, are also affected by the trends in exchange rates. The CIRR fixed interest rate or CIRR-derived floating interest rate are the most frequently used rates in the conditions of the CEB. As much as 78% of all credits provided by the CEB as at 31 December 2007 were associated with such interest rates. Since this is a fixed interest rate valid throughout the entire credit repayment period, the development of the CIRR interest rates is very important for the total interest income. Their development trend was characterized by a further increase of the EUR-denominated CIRRs as already shown during 2006, based on their record level in the latest five-year history, which was reached in mid-2007. A slight decrease was reported in the second-half of 2007. The USD-denominated CIRRs remained at their high 2006 levels during the first 9 months in 2007, to then start decreasing in the last quarter of 2007 only. Since the share of new credits provided in USD as the contractual currency and with a fixed interest rate is rather insignificant, it does not have such an impact on the CEB's financial results as the development of the EUR-denominated CIRRs.



Source: OECD

Floating reference interest rates experienced a similar development in 2007. The share of credits granted under floating interest rates as at 31 December 2007 remained virtually unchanged in comparison with their share one year earlier (with a year-on-year decrease by 2 percentage points). The increase in the EUR-denominated floating reference interest rates had some influence on the total interest income; however, this impact was much weaker than the increase of fixed CIRRs has had and will have in the future.

Development of three months' floating reference interest rate in 2006 and 2007



Source: Reuters

1.4. International cooperation

In 2007, as in the previous years, the CEB also participated in the activities of key institutions, which deal with international rules for officially-supported export financing, namely the working groups for export credits of the OECD and the Council of the European Union. This ensures that any amendments to these rules are always consistently applied by the CEB in favour of Czech exporters, and that international obligations are met. In 2007, both institutions focused their activities, among other things, on the compliance with the stricter rules for combating bribery in international business transactions, on new rules for environmental protection in export projects, on the regulation of export financing provided for exports to low-income countries in accordance with the IMF requirements, and on easing down the requirements for financing of local costs in the importing country.

As far as inter-bank cooperation is concerned, the CEB continued to extend the number of partner banks by establishing new correspondent relationships with selected financial institutions in the target countries of Czech exports. New cooperation agreements as well as new framework credit agreements have been signed with many of these banks, particularly in the former CIS countries, creating the necessary preconditions for the subsequent support of exports to these countries.

2. Selected Financial Indicators

	Unit	2007	2006
Financial Results			
Net interest income	CZK million	6	-70
Net income from fees and commissions (incl. subsidies)	CZK million	296	323
Net income from financial operations	CZK million	52	68
Impairment losses	CZK million	0	-1
Total operating expense	CZK million	204	187
Income tax expense	CZK million	40	-34
Net profit	CZK million	110	99
Balance sheet			
Total Assets	CZK million	34,315	25,675
Due from customers	CZK million	17,671	9,009
Due from banks	CZK million	11,223	12,385
Client deposits	CZK million	1,985	1,933
Deposits of banks	CZK million	5,911	4,487
Bonds in issue	CZK million	23,455	16,309
Total equity	CZK million	2,769	2,574
Ratios			
Return on average equity (ROAE)	%	4.1	4.07
Return on average assets (ROAA)	%	0.37	0.41
Capital adequacy (according to CNB)	%	48.84	67.45
Assets per employee	CZK thousand	295,821	221,335
Administrative expense per employee	CZK thousand	1,522	1,430
Net profit per employee	CZK thousand	946	855
Other data			
Average number of employees	employees	116	115
Guarantees provided	CZK million	4,004	2,946
Credit commitments	CZK million	18,694	13,245
Rating – long-term liabilities			
Moody's	-	Aa1	Aa1
Standard & Poor's	-	A	A-

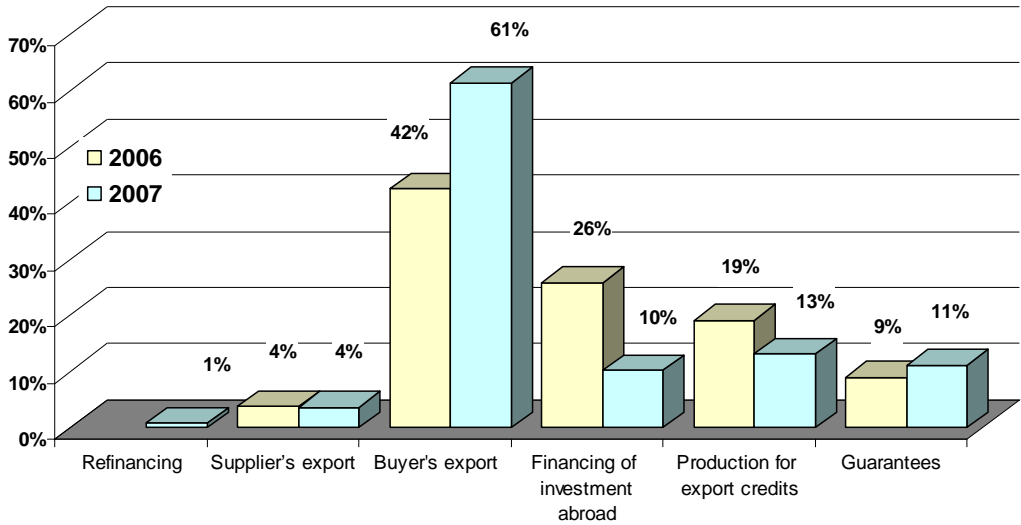
3. Business Results

The development and performance indicators of the Bank as a financial institution specialized exclusively in state-supported export financing reflect and are fully dependent on its very narrow business activities. These activities consist in the Bank’s ability to provide the exporters with such structure of financing options for their export transactions, which will put them on an equal footing with their foreign competitors as regards the security of financial resources, thus reducing the competition to the broadest product range offered for the most affordable prices, with the highest quality and the shortest delivery terms possible.

The Bank considers its 2007 business results to be a success. The total volume of credit financing and guarantee bond contracts concluded in 2007 amounting to CZK 19,415 million is practically equal to that achieved in 2006. Abstracting from the development of the CZK exchange rate against USD and EUR as the main contract currencies, the 2006 result was exceeded.

From the point of view of the structure of the contracts signed, it can be noted that there have been only partial changes to the shares of the individual financing product used. The total ratio between the credit financing contracts and the guarantee bond contracts remained the same in a year-to-year comparison.

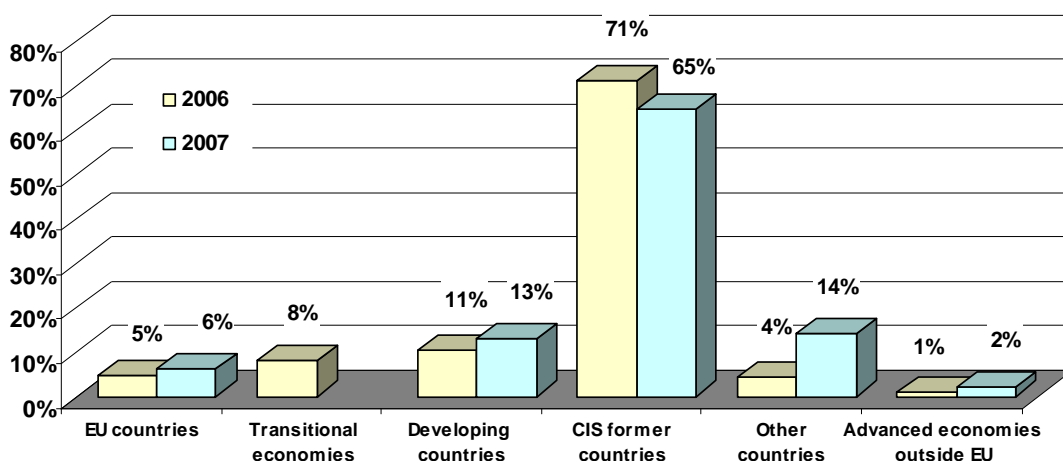
Volume of supported export financing by types of product



The mission of the Bank since its establishment has been to provide export financing to Czech exporters in compliance with the rules respected by developed countries when providing medium and long-term export credits in accordance with the OECD guidelines, and to provide additional financial services to complement the financing of export business transactions in a suitable manner. The Bank thus offers a complex range of banking services, enabling the exporters to bring their products to foreign markets under the same conditions as those applicable to their competitors. An important feature of the Bank’s mission is primarily providing the financing for exports to countries with a higher and high political and commercial risk. The degree of such risk for the individual countries is classified by OECD and updated regularly on an annual basis. This is essential, in particular, when minimal insurance rates are determined for insuring of export credit risks.

The 2006 development trend of the territorial structure of the executed contracts continued also in 2007. There was an ongoing high interest in the financing of exports to the former CIS countries, and in particular to the Russian Federation. On a year-to-year basis, the volume of the executed credit agreements related to exports to the Russian Federation increased from CZK 8,086 million to CZK 10,860 million, i.e. by as much as one-third, and accounts for 56% of the total volume of the signed credit agreements. A more significant year-to-year increase is also apparent in the volume of export credits related to other countries, which include mainly countries with centrally controlled economies. This reflects the success of Czech exporters on the markets in countries such as Vietnam or Mongolia, achieved thanks to the state-supported export financing.

Volume of export credits by type of economy in the export target country



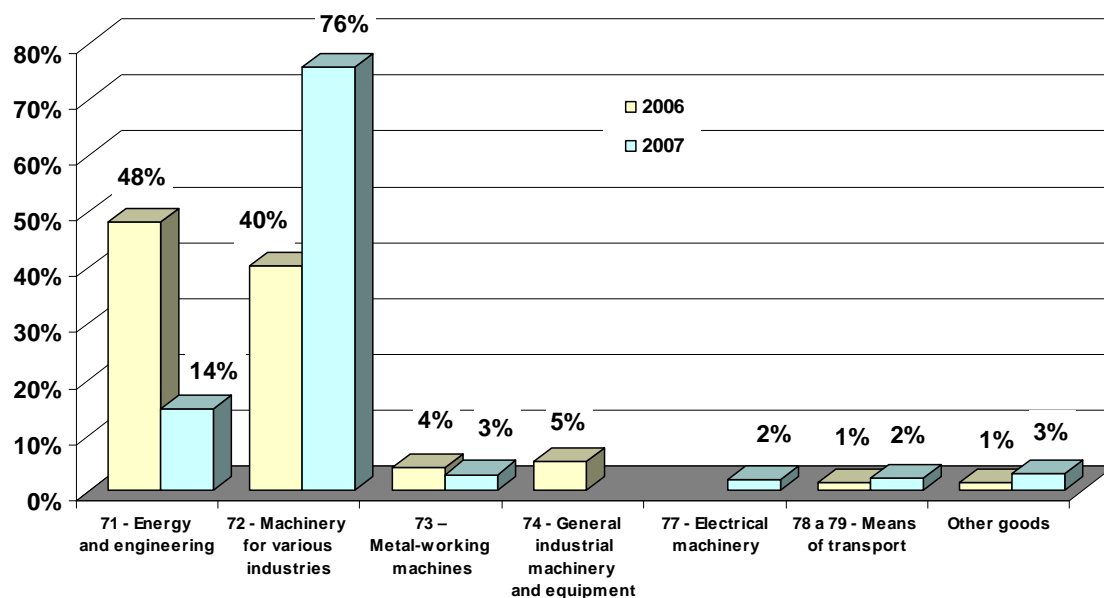
Note: The chart works with the country groupings applied by the Czech Statistical Office

As for the commodity structure of the executed credit agreements, the year-to-year comparison shows only a change in the ratio between the credits related to the export of power generating machinery and equipment (engineering goods under SITC group 71) and specialized industrial machinery (SITC 72), which comprises integrated technological units including engineering activities.

When comparing the shares of both these commodity groups in the total volume of the credit agreements executed in both 2006 and 2007, you can see that their shares have remained practically at the same level. The shares of other commodity groups prove that the Bank is able to finance the exports of virtually any kind of goods, but capital goods will always have a dominant position.

In 2007, the Bank has once again confirmed the fulfilment of its mission consisting in the financing of exports of predominantly investment-intensive goods to countries with a higher or high territorial risk, which – in many instances – is too high for commercial banks or is not consistent with their strategy on the Czech market.

**Volume of supported export financing by commodities
(according to SITC)**

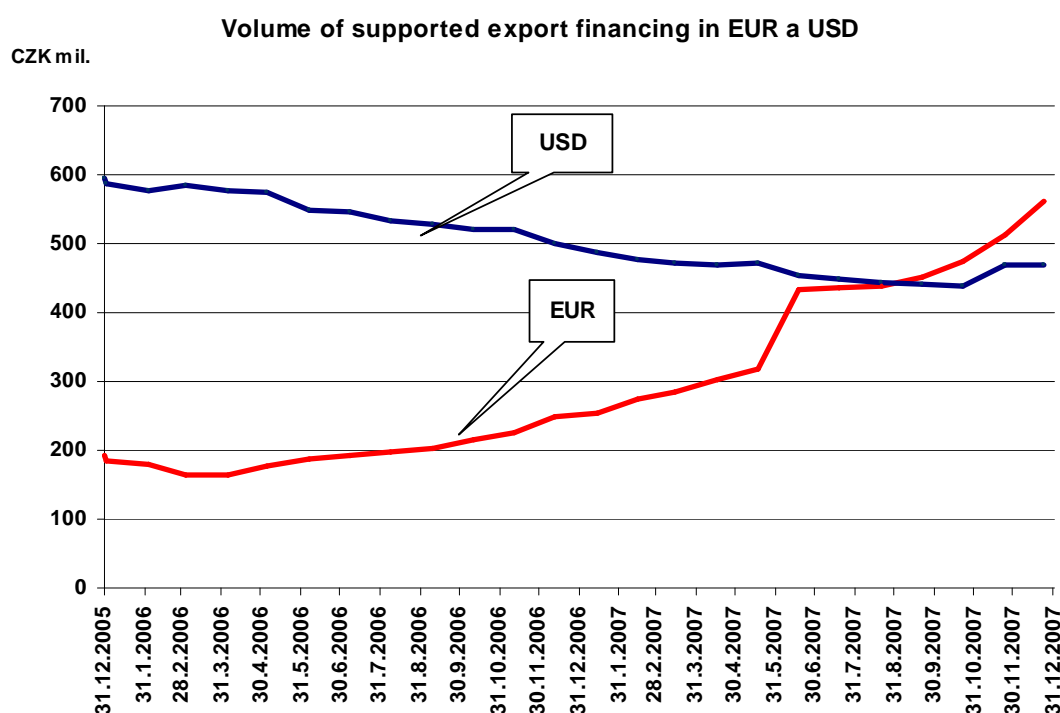


The Bank provides state-supported export financing products and services related to export financing to a broad range of Czech exporters regardless of their size. Similarly to other developed countries, the export target countries for the Czech SME's are primarily the neighbouring countries of the Czech Republic. These countries, unlike the structure of the entire Czech exports, are not crucial for the CEB activities from the territorial point of view. The state export support is used by exporters predominantly in those regions, for which the Bank is particularly intended, i.e. in countries with higher and high risks related to export financing. Such risks are often faced by the exporters to less developed countries and to remote markets. The Bank provides them with the ability to finance exports also to such countries, since commercial banks, when providing their services, take strongly into account the related credit risks and restrict the scope of their commercial policy accordingly.

SME share in CEB activities Figures in CZK million		Volume of executed contracts		Credit situation	
		2006	2007	2006	2007
Total CEB		19,933	19,415	17,797	23,824
Including:	SMEs	1,190	4,972	927	879

4. Development of the Credit Portfolio Situation and Structure

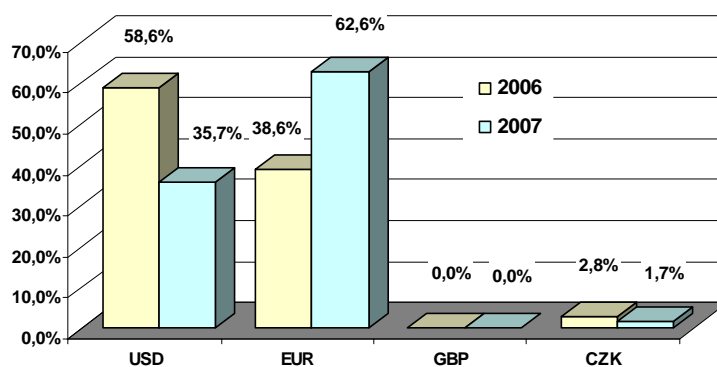
The volume of credits provided by the Bank as at 31 December 2007 increased, based on a year-to-year comparison with 2006, by CZK 6,027 million to CZK 23,824 million. The development of EUR-denominated credits shows a steep rising trajectory since April 2006, which is determined particularly by the fact that almost all new credits drawn by the exporters are in EUR. The development of USD-denominated credits shows a different trend. Given that, in the last 3 years, the export credits and export-oriented production financing has been concluded in EUR as the contract currency rather than USD, the level of USD-denominated credits shows a continuous slightly declining trend as the respective credits are repaid step by step.



Such increase in the volume of credits had an impact on the entire structure of exports in many dimensions.

During the year, the share of EUR-denominated credits was gradually rising at the expense of USD-denominated credits to such an extent that their ratio after conversion to CZK has been practically reversed. The shares of other currencies, namely CZK and GBP, are only negligible. Jointly, they account for less than 3% of total credit portfolio in the long term.

Credit portfolio by currencies



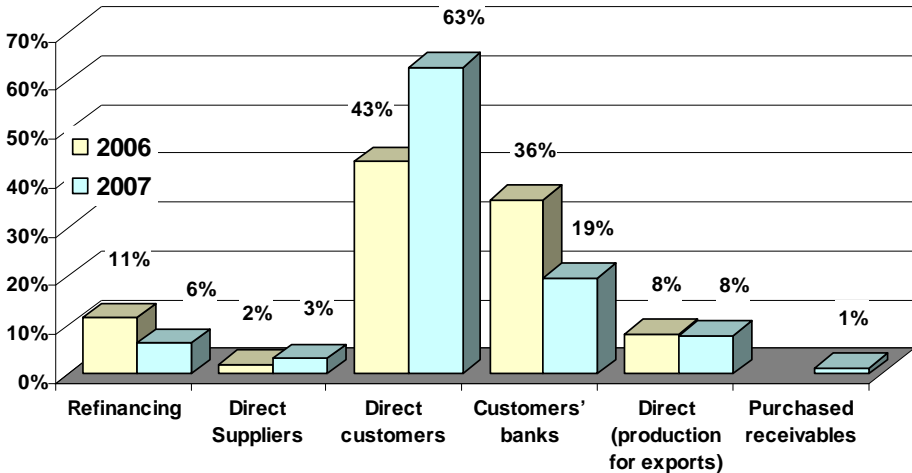
In 2007, the Bank was successful in achieving a financial structure dominated by credits granted directly to non-bank clients complemented with the financing of export-oriented production. The Bank provided complete financing, i.e. including credits supporting the export-oriented production.

Thanks to this achievement, the share of credits granted to non-banking borrowers has shown a strong year-to-year increase, rising from 53.0% to 74.3%. Other factors contributing to this development were the improving creditworthiness of non-banking clients, in particular in the Russian Federation related to the overall improving economic situation of the Russian Federation as a target export country, and the ability of the CEB to mitigate the credit risks of non-banking borrowers.

In 2007, similarly as in the previous year, direct client credits were the products that reported a significant growth of its share in the credit portfolio.

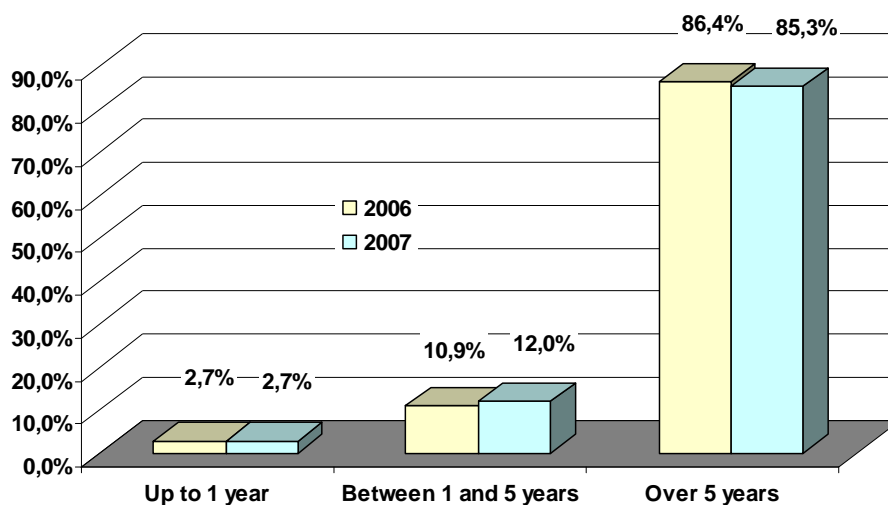
At the end of 2007, the Bank has also prepared new products such as purchase of export receivables (with EGAP insurance) and purchase of export receivables under letters of credit.

Credit portfolio by types of product



Taking into account the structure of credits based on the initial maturity period, it should be noted that the year-on-year increase in credits achieved during 2007 had practically no effect on this criterion. The share of credits having an initial maturity period of more than 5 years maintained its leading position in 2007 and amounts to 85% in the long run.

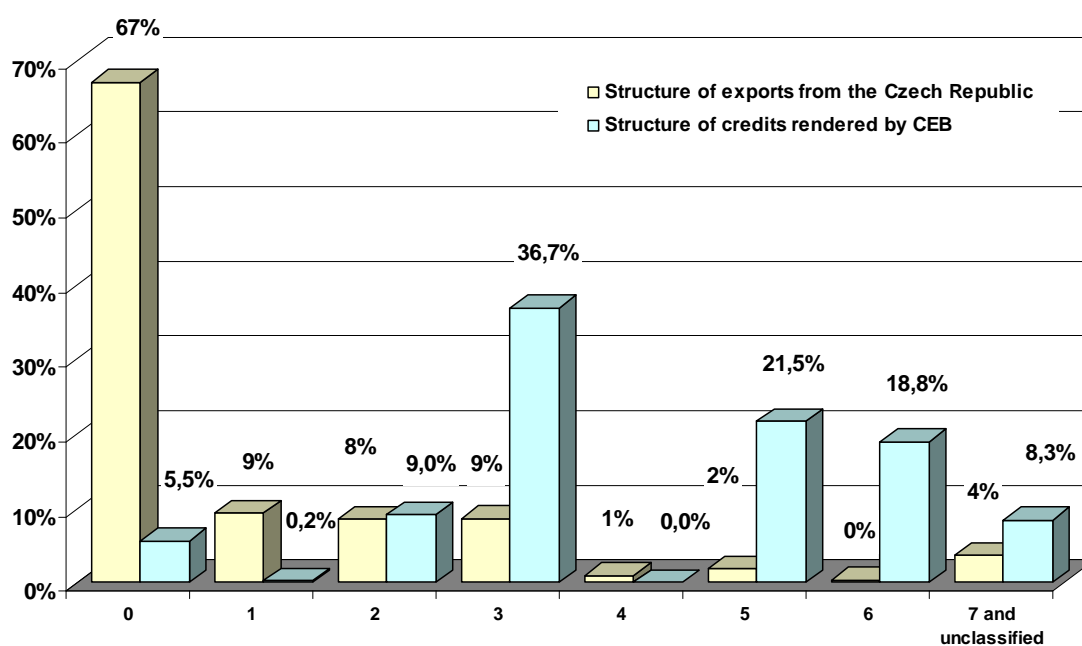
Credit portfolio by loan maturity



The structure of Czech exports as a whole shows stable features. As much as 93% of Czech exports are headed to countries with a low or not very high risk (categories 0 to 3 of the OECD country risk classification). Countries with medium and high political and commercial risk are the destination for 7% of Czech exports only.

The Bank continues to prove its important role in financing exports to countries with increased financial risks. This can be documented by the comparison of the structure of Czech exports in 2007 and the structure of CEB's credit portfolio as at 31 December 2007, based on the OECD classification of the individual export target countries valid on the same date.

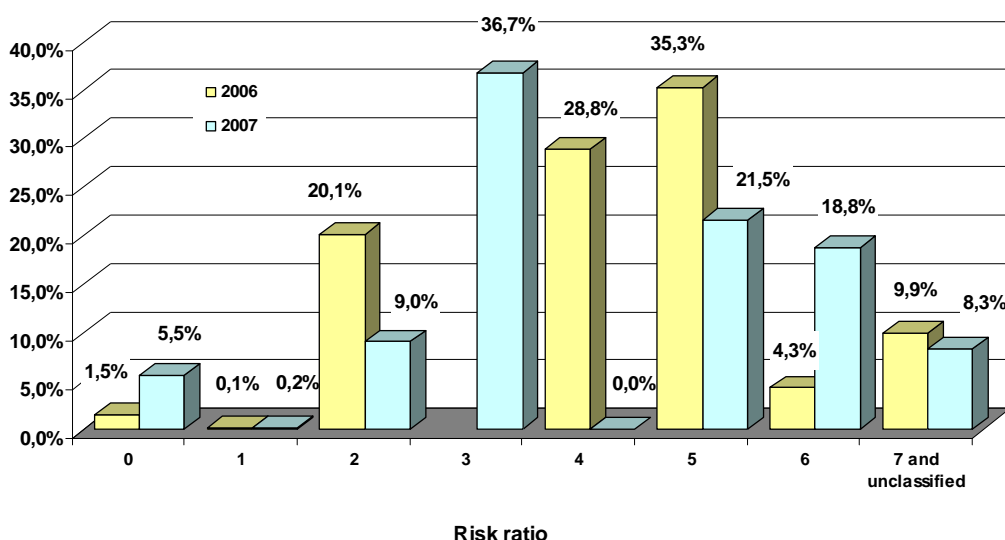
Comparison of structure of exports from the Czech Republic and structure of credits rendered by CEB in 2007 (OECD country risk classification)



Source: CEB, OECD and Czech Statistical Office

The year-to-year comparison was significantly influenced by the improved OECD risk rate of the Russian Federation (to Category 3), as the CEB's credits provided to finance exports to this country have the highest share among the individual target countries, reaching to 33.1%.

Credit portfolio by export target countries (OECD risk classification)



II. Financial Management, Financial Results and Development of Assets

1. Assets and Liabilities

The CEB's total assets reached the amount of CZK 34,315 million in 2007, which means a year-to-year increase by 33.7%. The balance-sheet structure remains unchanged in the long run; the balance-sheet volumes are derived from the long-term planned projection of the development of the asset-side financial transactions, which is used as a guideline to adjust the liability side of the balance sheet.

1.1. Resources

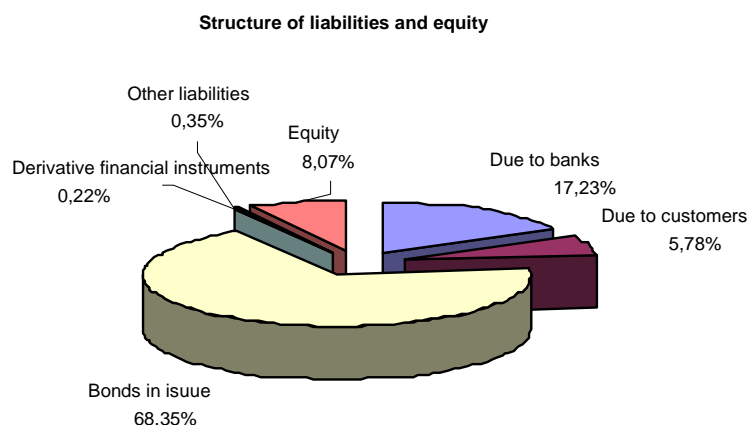
Out of the total volume of resources, own funds represent 8.07%, while funds due to financial institutions as well as non-banking entities amount to 91.93%. Issues of bonds denominated both in foreign currencies and in CZK build the fundamental and long-term stable source of financing of all CEB activities related to export supports. The resources obtained in this manner and expressed in CZK amounted to 23.5 billion and they currently cover more than 95% of the Bank's credit activities. The CEB's resources are further complemented by both long- and short-term loans from banks in the amount of approximately CZK 5.9 billion and resources received from non-banking entities, particularly in the form of term deposits of CZK 2 billion. The volume of the shareholders' equity of the Bank was CZK 2.8 billion including the profit generated by the CEB. In 2007, the CEB generated a net profit of CZK 110 million.

As far as the structure of resources is concerned, compared to the previous year, the volume of funds obtained through issue of bonds has increased. During 2007, the CEB issued

bonds in the total amount of EUR 320 million under an EMTN programme in order to cover the increased export credit demand. Additional resource needs were complemented with received credits and, where necessary, with borrowings on the inter-bank market. The increase in liabilities from financial derivatives is related to their revaluation to fair value.

Liabilities in CZK million	Actual 31 December 2006	Actual 31 December 2007	Y-on-Y index
	1	2	2/1
Due to banks	4,487	5,911	131.74
Due to customers	1,933	1,985	102.69
Derivative financial instruments and other trade liabilities	5	76	1,520.00
Bonds in issue	16,309	23,455	143.82
Other liabilities	327	96	29.36
Provisions	-	5	-
Income tax payable	40	-	-
Deferred income tax liability	-	18	-
Total liabilities	23,101	31,546	136.56
Share capital	1,850	1,850	100.00
Retained earnings	101	112	110.89
Statutory reserve	370	370	100.00
Export risk reserve	238	337	141.60
Revaluation reserve	15	100	666.67
Total equity	2,574	2,769	107.58
Total equity and liabilities	25,675	34,315	133.65

The following diagram shows the structure of liabilities and equity:



1.2. Use of Resources

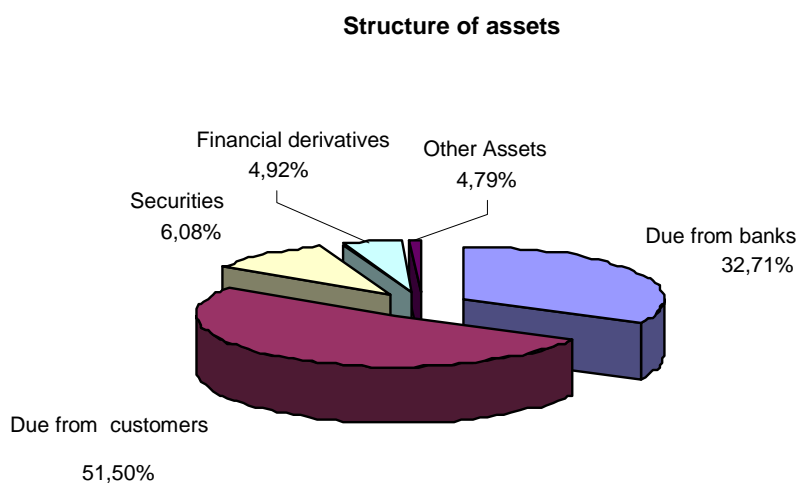
As far as the use of resources is concerned, the most important part of the assets continues to be represented by receivables under loans, which represent almost 70% of the CEB's total assets. The total value of the credit portfolio increased by 36.1% in a year-to-year comparison. The most significant increase was recorded in the area of long-term credits provided to non-banking clients in accordance with the commercial policy of CEB, with their volume expressed in CZK growing by 98.8% year-on-year. This volume was achieved in spite of the unfavourable development of the CZK exchange rate against the currencies, in which the credit receivables are denominated (99% of the credit portfolio are loans provided in foreign currencies – EUR or USD, as the case may be). The year-to-year appreciation of the CZK

exchange rate resulted in a drop of approx. CZK 1,806 million in the volume of the credits granted). In accordance with the expectations, a decrease was recorded in the receivables under credits provided to financial institutions where almost all credit transactions of a significant volume have been at the stage of repayment.

Any temporarily free funds, which have not been placed in credits, have been appreciated in the inter-bank operations performed on the financial market, including reverse repo transactions with the central bank. In the course of 2007, the CEB preferred to invest its free funds in high-quality and at the same time liquid securities on both the domestic and foreign markets. In order to obtain flexible resources to cover a part of its funding needs, the Bank decided for repo operations with selected domestic banks, obtaining funds against pledged securities.

Assets in CZK million	Actual 31 December 2006	Actual 31 December 2007	Y-on-Y index
	1	2	2/1
Cash and deposits with central bank	371	7	1.89
Treasury bills	739	0	0.00
Due from banks	12,385	11,223	90.62
Due from customers	9,009	17,671	196.15
Financial derivatives	1,427	1,689	118.36
Investment securities	1,056	2,087	197.63
of which: available-for-sale	692	811	117.20
held-to-maturity	364	1,276	350.55
Pledged assets	0	1,334	-
Fixed intangible assets	17	10	58.82
Fixed tangible assets	10	20	200.00
Other assets	615	243	39.51
Current income tax asset	0	31	-
Deferred tax asset	46	0	0.00
Total assets	25,675	34,315	133.65

The following diagram shows the structure of assets:



2. Profit Generation

In 2007, the CEB generated profit after tax in the total amount of CZK 110 million.

The profit is mainly generated from net income from fees and commissions, as well as from gains from transactions with derivatives, which are used by the CEB in order to hedge exchange rate or interest rate risks. The amount of profit is also favourably affected by the relatively low requirements for impairment provisions due to implemented restructuring of classified receivables and related realisation of collaterals upon their write-off.

The year-on-year increase in net interest income only relates to higher interest collection from transactions due to an overall growth of the credit portfolio. Another factor contributing to the stronger interest income is the higher profitability of funds placed on financial and capital markets. The increase in interest expense is caused by the need for larger volumes of funds required to finance the growing credit portfolio and related costs incurred by the Bank in order to obtain and maintain these funds.

Losses generated from the provision of products of supported financing are covered from the State budget, in accordance with Act No. 58/1995 Coll. Pursuant to that Act, a loss consists in particular of differences between the interest income from loans provided to both banking and non-banking entities under standard conditions applied to state-supported credits on the international markets, and the costs incurred in obtaining resources on the financial markets, as well as the costs of additional adjustments in respect of some selected credit receivables. The CEB was entitled to apply to subsidies of CZK 242 million in 2007.

Financial results in CZK million	Actual 31 December 2006	Actual 31 December 2007	Year-on-year index
	1	2	2/1
Net interest income	-70	6	-
Net fee and commission income	34	54	158.82
Net trading income	68	52	76.47
State subsidy	289	242	83.74
Loss on impaired loans	-1	0	0.00
Operating expense	-187	-204	109.09
Operating profit before tax	133	150	112.78
Income tax	-34	-40	117.65
Net profit for the financial year	99	110	111.11

3. Raising Funds

In 2007, funding of financial activities of the CEB was covered from resources obtained on the financial markets in previous years as well as from new transactions executed in the current year. The particular parameters of the liability-side transactions ensure the necessary continuity for the CEB's financing of Czech exports and the due repayment of any existing liabilities by the CEB.

For the second quarter of 2007, the CEB prepared a bond issue borrowing program, the so-called EMTN Programme (Euro Medium Term Note Programme), in order to cover the growing volumes of particularly EUR-denominated credits. During the implementation of this Programme, its key advantages were taken into account, such as flexibility, lower time intensity, relatively fast execution of the individual issues, and diversification of the investor base. Five issues of bonds in the total volume of EUR 320 million took place under the approved Programme in 2007.

The structure of the fundamental funds received is as follows:

- July 2000, CZK 5.5 billion, 10-year bond issue on the local capital market, Lead Manager: Česká spořitelna, a.s.;
- May 2002, USD 350 million, 7-year bond issue on international markets, Lead Managers: Morgan Stanley & Co. Int. and Česká spořitelna, a.s.
- June 2003, USD 65 million, 6-year amortised loan from Depfa Bank
- November 2003, USD 150 million, 5-year bond issue on international markets, Lead Managers: ABN AMRO Bank and Goldman Sachs
- May 2004, USD 220 million, 4-year revolving syndicated loan, Arrangers: Bayerische LB and CALYON Bank
- November 2006, EUR 75 million, 7-year bilateral loan from Depfa Bank
- May 2007, EUR 120 million, 9-year bond issue on international markets, Lead Manager: Morgan Stanley & Co. Int.
- May 2007, EUR 50 million, 7-year bond issue on international markets, Lead Manager: Morgan Stanley & Co. Int.
- August 2007, EUR 50 million, 5-year bond issue on international markets, Lead Manager: Dexia BIL
- November 2007, EUR 50 million, 5-year bond issue on international markets, Lead Manager: Goldman Sachs Int.
- November 2007, EUR 50 million, 10-year bond issue on international markets, Lead Manager: Goldman Sachs Int.
- Contracts on fixed-term deposit accounts serve primarily as a hedging instrument for the CEB's credits granted
- Interbank market borrowings are used mainly to secure short-term liquidity of the Bank

4. Trading on Financial Markets

The CEB kept placing its share capital in inter-bank and capital market products during 2007. The CEB followed a conservative strategy in investing its registered capital funds predominantly in low credit risk securities according to the investment rating. CEB is not focused on any active trading in securities and any purchased instruments are mostly held to maturity.

The largest proportion of the securities portfolio is represented by investments in treasury bonds and treasury notes and also by investments in foreign corporate bonds denominated in CZK. Idle funds were placed on the inter-bank market in bank deposits and repo transactions with the CNB. In the case of transactions on the inter-bank market, the CEB acted therefore mostly on the active side.

Temporarily free supported financing funds were deposited on the inter-bank market mostly as short-term deposits, in order to ensure their high liquidity. Short-term liquidity needs were primarily covered from the inter-bank market with the assistance of currency swaps, where necessary. Throughout 2007, the inter-bank market was used to the largest extent possible, which helped to reduce further the CEB's cost of funding.

5. Economic and Financial Outlook for 2008

The CEB expects the following economic and financial outlook for 2008:

- Further consolidation and extension of a stable client portfolio, particularly with the focus on entities with high export potential based on a competitive export programme, which will have an impact on the changes in the structure of the provided credits; client credits are expected to take the leading position in the CEB's balance sheet by the end of 2008 among the credit products offered by the Bank, and in particular those provided to non-banking clients with high creditworthiness rating;
- A year-on-year increase in the planned scope of state support for exports in order to exceed the volume of the executed credit agreements by 3.2% over the 2007 plan, i.e. to a volume of CZK 19.5 billion;
- Entering into a higher acceptable risk rate taking into account the developments of the competition environment, the market expectations and the meeting of the objectives defined in the 2006-2010 Export Strategy of the Czech Republic, using the potential scope for its coverage by the CEB's own funds, EGAP insurance and other acceptable hedging instruments, as well as by assigned appropriations allocated to export support from the national budget (without any significant deterioration of the credit portfolio quality);
- Increase in the share capital by CZK 150 million to the total of CZK 2,000 million, allowing the Bank to enter into more sophisticated financing structures, while respecting the prudential rules for banks;
- Increase in the credit volume by 2.8% and creating conditions for a slight growth of the CEB's share in the volume of credits provided to the Czech commercial banks;
- A more intensive use of the available resources in order to meet the increased needs on the assets-side, i.e. in the area of credits provided by the Bank;
- Improved return on equity;
- Staying within the ceiling of the funds assigned in the 2008 draft national budget of the Czech Republic for the subsidy to cover the loss from supported financing;
- Strict regulation of the increasing operating expense, including an efficient control of the spending, in particular as regards labour costs and purchased goods and services. As for depreciation of tangible and intangible assets, a planned increase will be recorded in connection with the development of information technologies taking place based on the tasks within the medium-term strategy for development of information systems, with the renewal of the banking information system as one of the key objectives;
- Ensuring positive financial results and profit generation, with the available financial means used to strengthen the export support funds in accordance with Act No. 58/1995 Coll.;
- Due attention will also be paid by the CEB to the SME sector, which has optically only a small share in the activities, but it should be noted that SME's usually act as subcontractors to the exporters, rather than the final exporters themselves. Through pre-export credits, the CEB indirectly supports dozens of smaller subcontractors who are involved in the export projects;
- As regards capital expenditures, the intention is to start the renewal process in relation to the main information system.

D. Textual Part of the Annual Report

I. Risk Exposures of the Bank and Objectives and Methods of Risk Management

The CEB's risk management policy is based, on one side, on the prudential rules set by CNB as the regulator and, on the other side, on international standards applied in all areas of risk management. As regards its risk management, the CEB traditionally follows the principle of a limited risk profile based on a system of internal limits for each type of risks and products. The risk management process in the CEB is independent of all its business activities.

This process is managed by the Risk Management Section. The Credit Risk Management Division is in charge of managing credit risks associated with the individual transactions. The task of managing portfolio-level credit risks, market risks, operational risks, liquidity risks, and risks associated with the operation of information systems is assigned to the Bank Risk Management Division. The risk management process is supervised by the CEB's Board of Directors, which is regularly informed about the risk exposures.

The CEB did not exceed any limit announced by the CNB as the regulator during 2007.

1. Credit Risk

Credit risk, i.e. the risk of losses arising from a counter-party's failure to meet its commitments under the terms of a contract, based on which CEB becomes a creditor of the counter-party, is managed under the following credit risk evaluation system:

- Borrower risk management
 - Evaluating and monitoring the borrower's creditworthiness, defining an internal rating (CEB does not and will not use any internal rating model to calculate the capital requirement using the IRB method) or a limit per borrower or per ESS;
 - Credit exposure monitoring; and
 - Checking, monitoring and resolving any risk receivables, creating/releasing allowances with respect of performance of the borrower's commitments to the CEB.
- Transaction risk management
 - Assessing and monitoring specific risks of a transaction mainly in respect of the quality of security, defining an acceptable level of security
- Concentration risk management
 - Territorial credit exposure monitoring in the individual countries from the point of view of financial flows generated in foreign currencies and the debtor's country, and the distribution of such exposure among the individual industries and commercial case rating groups based on the CEB's internal rating.

In order to minimise credit risks when providing supported financing, CEB uses the standard credit risk mitigation methods, in particular the EGAP credit risk insurance. The CEB does not currently use any credit derivatives to minimize credit risks.

In the field of credit risks, the CEB maintains a well-established management system designed to monitor the state of risk exposures on a daily basis and to compare them to the limits determined by the regulator, and/or the limits derived from the regulatory limits or from any acceptable risk rate. In credit risk management, the CEB will continue to improve its system for credit risk evaluation.

Classified receivables according to the CNB methodology

In conducting regular business, losses inevitably arise from credits and other credit facilities if they become partially or fully uncollectible. Where a loss or default risk is identified, receivables are grouped into respective categories of classified receivables. The identified amount of loss is recorded as an expense in the form of a provision or an allowance, resulting in a decrease of the accounting value of the respective category of receivables.

Since no loss or default risk was identified in relation to off-balance sheet items, the CEB did not create any provisions for the off-balance sheet items.

The categories of classified receivables are summarised as follows (figures in CZK million):

a) Classification of the receivables due from banks

	As at 31 December 2006	As at 31 December 2007
Standard	11,246	5,630
Watch	1,139	563
Provisions	0	0

b) Classification of the receivables due from non-banking clients

	As at 31 December 2006	As at 31 December 2007
Standard	8,375	17,017
Watch	202	120
Non-standard	334	37
Doubtful	96	45
Loss	459	327
Provisions	-457	-139

2. Market Risk

Market risk includes the risk of losses arising from changes in the market factors, i.e. prices and rates on financial markets. In CEB, market risk management is a process involving the identification, measurement and ongoing supervision of the use of limits, and analysis and regular reporting of individual risks to the CEB's committees and management in order to manage the negative financial impacts that may occur in consequence of such adverse changes to the market rates.

The CEB is not exposed to any stock or commodity risks. The exchange rate and interest rate risks are managed using the methods described below:

- Credit risk management
 - Gap analysis;
 - Duration analysis;
 - Analysis of sensitivity factors, limits in different currencies.
- Exchange rate risk management
 - Analysis of sensitivity factors, limits in different currencies.
- Aggregate market risk management
 - Value at Risk (VaR) – the CEB uses the historical method and co-variation/variation method at a 99 % reliability level with a ten-day outlook based on a 260-day history.

In order to minimise the exchange rate and credit rate risks, the CEB has been currently using futures and swap transactions.

The CEB maintains a well-established management system with respect to the market risk issues, monitoring risk exposures on a daily basis and comparing them to the limits derived from the acceptable risk rate.

3. Liquidity Risk

- Short-term liquidity management on a daily basis is carried out through:
 - Measurement and comparison of cash flow inflows and outflows, i.e. monitoring of net cash flow for a period of at least 5 business days in advance;
 - Gap analysis measuring the maximum cumulative cash outflow and the limits in individual currencies and time gaps.

- Medium- and long-term liquidity management on a monthly basis is carried out through:
 - Gap analysis measuring the maximum cumulative cash outflow and the limits in individual currencies and time gaps;
 - Ratio indicators and limits ensuring the optimal structure of maturity of assets and liabilities;
 - Limits for unstable sources of finance preventing and high concentration of such resources.

Emergency plans are in place in response to any liquidity problems during emergency situations. The CEB faced no liquidity problems during 2007.

The CEB maintains a well-established management system with respect to liquidity risk management, monitoring the liquidity status and forecast on a daily basis and comparing them to the defined limits.

4. Operational Risk

The CEB manages the risk of losses caused by defects in or failures of internal processes, the human factor or systems, and the risk of losses due to external events, including the breach or non-compliance with legal provisions.

An early warning system was introduced as the core tool of operational risk management, it was built based on a set of risk indicators and signal limits that are designed to announce an increased probability level of occurrence of certain operational risks. Uniform rules were put in place for monitoring operational risk events.

II. Human Resources

1. Relationships with Employees

The CEB had 116 employees as at 31 December 2007.

One of the key goals of CEB in the area of human resources is to ensure an excellent level of skills and professionalism of its employees in all spheres of activity, as well as to recruit and maintain people who possess capabilities and potentials to achieve such high performance standards as expected from them by the CEB.

In order to achieve the above-described goal, the CEB pay due attention to the internal fairness of the remuneration system, i.e. that employees receive identical salaries for identical work of identical value, taking into account the situation prevailing on the labour market.

CEB supports the professional growth of its employees and the development of their expert knowledge.

The CEB employees are granted a number of employee benefits, which are designed to contribute to their higher satisfaction and stability at work.

The CEB employees regularly receive all relevant information through periodical sharing of information concerning the meetings of the Board of Directors and press releases. Other communication tools available include the so-called “open door days” to the CEO’s office and boxes where the employees can drop their queries, suggestions and comments.

The Code of Ethics applicable to the CEB employees was amended in 2007. This Code of Ethics defines the ethical principles and the behaviour and conduct models expected from a CEB employee in relation to his/her colleagues and clients as well as to other persons that the employees meet in connection with their employment in CEB.

Pursuant to the relevant provisions of Act No. 513/1991 Coll., the Commercial Code, as amended, the CEB employees elect their representatives to the CEB’s Supervisory Board.

2. Principles Governing the Remuneration of the Bank’s Top Managers and Members of the Boards

Top managers, in terms of provisions of Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended, are to be understood as members of the CEB Board of Directors, who are in charge of the commercial management of CEB in accordance with the Bank’s Statutes, including due keeping of accounting books, and decide about all affairs of the CEB falling under their competence, while acting – at the same time – in the capacity of the Chief Executive Officer and the CEO’s deputies. No general power of attorney has been granted by CEB.

Any decisions concerning the remuneration of the members of the Board of Directors and of the Supervisory Board shall fall under the competence of the General Meeting.

The principles and manner of remuneration of the CEB employees are governed by the Remuneration Rules, which shall be approved by the Board of Directors of CEB.

The salary of the top managers – members of the Board of Directors, which does not constitute remuneration for the execution of the office of the directors, shall consist of a fixed component, i.e. the basic salary, and a variable component, i.e. regular bonuses and extraordinary bonuses.

The salary of the top managers – members of the Board of Directors, as well as any extraordinary bonuses for the top managers – members of the Board of Directors shall be determined by the Board of Directors, in accordance with the principles stipulated by the Supervisory Board. The decision on the CEO's salary shall be subject to approval by the CEB's Supervisory Board.

The principles for determining and awarding bonuses in addition to the contractual salary of the top managers – members of CEB's Board of Directors are linked to the specific tasks and objectives as regards the development of CEB, and are divided into two categories:

- Extraordinary bonuses for accomplishing particularly important tasks for CEB (employer);
- Regular bonuses for the overall achievements of the CEB's (the employer's) objectives, subject to meeting the criteria (principles) defined by the Supervisory Board in approving the financial and commercial plans for the respective calendar year. The amount of such bonuses is determined as a % of the annual contractual salary.

The salary of the employees, who are members of the Supervisory Board, which does not constitute remuneration for the execution of the office of the Supervisory Board member, shall consist of a fixed component, i.e. the basic salary, and a variable component, i.e. regular bonuses and, as appropriate, other salary components in accordance with the CEB Remuneration Rules.

The salary of the employees, who are members of the Supervisory Board, shall be approved by the CEB or, in cases of heads of autonomous departments of CEB, by the Board of Directors of CEB.

Regular bonuses for the employees, who are members of the Supervisory Board, shall be approved by the Chief Executive Officer.

The principles for determining and awarding bonuses in addition to the contractual salary of the employees, who are members of CEB's Supervisory Board, are linked to the specific tasks and objectives as regards the development of CEB, and are divided into two categories:

- Regular bonuses for the overall achievements of the CEB's (the employer's) objectives, subject to the assessment of meeting the economic interest and involvement criteria of the CEB (the employer) approved by the Board of Directors for the respective calendar year and subject to the assessment of the employee contribution appraisal indicators in the respective calendar year. The amount of such bonuses is determined as a % of the contractual monthly salary;
- Regular bonuses for the achievement of the tasks assigned to an employee in the breakdown of employee contribution appraisal indicators for the respective calendar year. The amount of such bonuses is determined as a % of the contractual monthly salary.

3. Cash and In-kind Income Received by the Bank's Top Managers and Members of the Boards

The employees of the CEB, who are members of the Board of Directors and of the Supervisory Board receive remuneration from CEB in money and in-kind solely in respect of their employment relationship. The total income received by the top managers of CEB – members of the Board of Directors, amounted to CZK 15,085 thousand in 2007, of which CZK 14,494 thousand in cash and CZK 591 thousand in kind. Cash remuneration received by the CEB employees – members of the Supervisory Board amounted to CZK 1,947 thousand in 2007. The employees of CEB – members of the Supervisory Board did not receive any remuneration in kind in 2007. The remuneration paid to the members of the Board of Directors and the Supervisory Board, as stated in the Notes to Financial statements audited by the external auditor, relates exclusively to CEB employees based on their employment with CEB. The members of the Supervisory Board, who are the employees of central public authorities, do not receive any remuneration in cash or in kind in respect of their membership in the CEB Supervisory Board in accordance with art. 303 (3) of Act No. 262/2006 Coll., the Labour Code.

III. Fees Paid to Auditors

The CEB has signed a contract on the performance of audit and related services with its statutory auditor PricewaterhouseCoopers Audit, s.r.o. ("PwC"). In 2007, the remuneration paid to PwC for its services amounted to CZK 5,177 thousand (incl. VAT). This figure includes:

- Statutory audit services CZK 3,932,000
- Consulting services, workshops and training, and other services CZK 140,000
- Assurance services related to the debenture programme
and prospectus CZK 1,105,000

In addition, CEB has also used the assurance services of Ernst & Young Audit, which was paid a total amount CZK 541 thousand for these services in 2007.

IV. Subsequent Events

No significant events that would influence CEB's Financial Statements as at 31 December 2007 occurred between the balance sheet date and the date of preparation of this annual report.

V. Structure of Management Bodies of the Czech Export Bank a.s.

1. Information about Members of the Boards

Supervisory Board

Chairman

Doc. Ing. Václav Petříček, CSc.
Chamber of Trade and Industry for CIS Countries

Vice-Chairman

Ing. Karel Goldemund – until 19 February 2007
Ministry of Finance

Ing. Ivan Fuksa – since 20 February 2007
Ministry of Finance

Members

Ing. Martin Tlapa, MBA
Ministry of Industry

Ing. Jiří Šiman
Ministry of Finance

Ing. Edita Hrdá
Ministry of Foreign Affairs

Doc. Ing. Tomáš Doucha, CSc. – until 19 February 2007
Ministry of Agriculture

PhDr. Ivo Hlaváč – since 20 February 2007
Ministry of Agriculture

Ing. Jiří Brudňák – until 11 December 2007
Czech Export Bank

Ing. Boris Kyselý, MBA – since 11 December 2007
Czech Export Bank

Ing. Pavel Kašpar
Czech Export Bank

Milan Vaic
Czech Export Bank

Board of Directors

Chairman

Ing. Josef Tauber
Czech Export Bank

Vice-Chairman

Ing. Miloslav Kubišta
Czech Export Bank

Members

Ing. Karel Tlustý, MBA
Czech Export Bank

Ing. Miroslava Hrnčířová, CSc.
Czech Export Bank

Ing. Ladislav Dvořák
Czech Export Bank

Executive Management *

Ing. Josef Tauber
Chief Executive Officer

Ing. Miloslav Kubišta
Chief Financial Officer

Ing. Karel Tlustý
Chief Risk Officer

Ing. Miroslava Hrnčířová, CSc.
Chief Credit Officer

Ing. Ladislav Dvořák
Chief Operation Officer

* In accordance with the Statutes of CEB, a.s., valid since 26 April 2006, the Board of Directors consists of 5 members – natural persons, who are top managers of the Bank holding executive management positions;

Supervisory Board

Doc. Ing. Václav Petříček, CSc., Chairman

Graduate from the Brno University of Technology. He then broadened his knowledge of mathematics at the Faculty of Science, J. E. Purkyně University in Brno. In 1990 he was awarded the degree for Doctor of Economic Science and in 2004 he became senior lecturer in the field of international trade. Since 1995 he has been lecturing at the Faculty of International Relations of the University of Economics in Prague. He is a member of the Scientific Board of the Prague University of Economics and of the Scientific Board of the Faculty of International Relations, Prague School of Economics; of the Academic Forum of the University of International and Public Relations in Prague; of the Administrative Board at the Czech Technical University in Prague, and of the Technical University in Brno. Following graduation, he worked in Rubena Náchod and in the Children and Youth Federation for a short period of time. He has worked in the State administration ever since 1972. Since 1992 he held the position of the Deputy Minister of Trade and Industry and Chief of the Ministerial Office. On 1 September 2007, he was appointed the Chairman of the Chamber of Trade and Industry for CIS Countries attached to the Economic Chamber of the Czech Republic. He is the Chairman of the Supervisory Board of EGAP, a.s. Until 2004, he was a member of the Administrative Board of o.p.s. Corona, thereafter the company was deleted from the Companies Register based on an application by the Ministry of Culture (the incorporator).

Ing. Karel Goldemund, Vice-Chairman

Graduate from the Czech Agricultural University and the English Language School. After completing his studies, he first worked in the banking sector. From 1997, he worked for Pojišťovna České spořitelny as claims adjuster and branch manager. In 2002, he worked in the position of a centre manager at Vyškovské služby, a.s. In August 2002, he became an advisor to the Minister of Finance, and he was appointed Deputy Minister of Finance on 15 August 2005. During his office as the Vice-Chairman of the Supervisory Board of CEB, he was also a member of the Board of Directors of ŠKODAEXPORT, a.s, Vice-Chairman of the Supervisory Board of EGAP, a. s., member of the Supervisory Boards of Středočeská energetická, a.s., Západočeská energetika, a.s., Severočeské doly, a. s., ČEPS, a.s. and TECHNOEXPORT akciová společnost pro zahraniční obchod, and Chairman of the Administrative Board of ČEZ Foundation.

Ing. Ivan Fuksa, Vice-Chairman

Graduate from the University of Transport and Communication in Žilina. After graduation, he worked in the Prague Public Transport Company (1986-1988), Střední průmyslová škola (Secondary Industrial School) in Příbram (1988-1989) and Střední odborné učiliště (Secondary Apprentice School) in Dubno (1991-1992). From 1992, he held the position of Deputy Mayor at the City of Příbram, to become the Mayor of Příbram later in the period of 2002–2004. On 29 January 2007, he was appointed the First Deputy Minister of Finance of the Czech Republic. He is a member of the Board of Directors of the Endowment Fund for “Svatohorské schody a zvelebení okolí” and the Vice-Chairman of the Supervisory Board of EGAP, a.s.

In the period 1994 - 2002 he was a member of the Board of Directors of Příbramská teplotní akciová společnost. A bankruptcy was declared on this company in 1998. The company suffered from secondary insolvency due to the breach of obligations and intentions by an American investor, which resulted in a criminal complaint filed against the persons acting on this investor's behalf. Since 2007 he is a member of the Supervisory Board of ČEZ, a.s.

Ing. Martin Tlapa, MBA, Member

Graduate from the University of Economics in Prague, Faculty of Commerce (1987); in 2002 he completed his Management Business Administration programme at ČVUT and the Hallam University in Sheffield. He started his practical experience in 1987 in the Research Institute for External Economic Relations; in 1991-1992 he worked at the Federal Ministry of Foreign Trade; until 1996 he was the Secretary for trade and economic affairs at the Czech representation office in Canada; he was the CEO of CzechTrade (the trade support agency) until 2004. Since 1 June 2004, he is the Deputy Minister of Industry and Trade responsible for the European Union section. He is a member of the Supervisory Board of EGAP, a.s.

Ing. Jiří Šiman, Member

Graduate from the Czech Technical University in Prague. After completing his studies, he worked in construction and project design. From 1986 until today, he works at the Ministry of Finance, currently in the National Budget Department. He is a member of the Supervisory Board of EGAP, a.s. and Chairman of the Committee of the Association of Owners of Flats at Jičínská, Prague 3.

Ing. Edita Hrdá, Member

Graduate from the Prague University of Economics. Thereafter she took further courses at the Diplomatic Academy in Madrid (1991 – 1992), the Diplomatic Academy in Vienna (1992) and the German Marshall Fund, USA (1995). In the years 1990 – 1991, she worked in the Institute of Modern Management in Prague, where she was in charge of organising courses and conferences. In 1992, she joined the Ministry of Foreign Affairs. She worked as the desk officer for Germany, Austria, Switzerland (1992), Secretary of the First Deputy Foreign Minister (1993), Director of the Latin American Section (1994-1996) and Director of the Central European Section (1996-1998). She held the office of the Extraordinary and Plenipotentiary Ambassador of the Czech Republic to Argentina and Paraguay in 1999 – 2003. After completing her mission, she worked as the Director of the Department of Multilateral Economic Relations (2004), then as the Director of the Department of American States (2004–2005), and the Senior Director of the Economic and Cultural Section. Currently, she holds the position of Senior Director of the Minister's Section. She is a member of the Supervisory Board of EGAP, a.s.

Doc Ing. Tomáš Doucha, CSc., Member

Graduate from the Czech Agricultural University – Faculty of Economics and Management. After graduation, he worked as field economist at Unified Agricultural Cooperative at Úholičky (1966 – 1968), investment officer at ZNZZ Prague (1968 – 1969), analyst-programmer at Výpočetní ústav VŠZ (1968 – 1976) and officer in charge of management of the economic unit introducing automated management at the HQs of the Economic Units STS and OZS Praha – Vnoř (1976 - 80). There and then, he also commenced his scientific career. He obtained the degree of the Doctor of Science in Agricultural Economy in 1981. In 1980, he became the head of the Automated Management Department at the Research Institute of Agriculture and Food, and worked in other managerial positions in the Institute of Rationalisation of Management and Labour, the Czech Institute of Agrarian Economy, and the Research Institute of Agricultural Economy. In 1998, he was appointed as the Director of the latter Institute. He became Deputy Agriculture Minister in September 2006. While holding the office of a member of the Supervisory Board of ČEB, a.s., he worked as Assistant Professor at the Czech Agricultural University in Prague, he was a member of the Scientific Board and the Administrative Board of the Czech Agricultural University, Presidium member of the Czech Academy of Agricultural Science, the editorial board of the scientific magazine 'Agricultural Economy', and the Czech Committee for Cooperation with IIASA.

PhDr. Ivo Hlaváč, Member

Graduate from the Philosophical Faculty of the Palackého University in Olomouc, specialized in philosophy-sociology. He was awarded his PhD degree at the same university in 2001. In 2000 he completed a postgraduate study scholarship granted by the Philosophical Faculty of the Palackého University in Olomouc at L'École des hautes études en sciences sociales in Paris, France, followed by external doctoral study program at the Philosophical Faculty of the Palackého University in Olomouc in 2004. In addition, he took part in certified study visits to the Geneva Centre for Security Policy (GCSP) – Geneva in 2003 and L'École Nationale d'Administration (ENA) – Paris in 2004. He entered into the practice as an advisor to a senator (1997-1998) and assistant professor at the Philosophical Faculty of the Palackého University in Olomouc (2000-2001). Thereafter, he worked as a scientific expert at the Academy of Science of the Czech Republic, at the Social and Political Theory Department at the Philosophical Institute of the Academy of Science (2000-2002) and as external analyst of the Center of Security Policy under the Charles University Faculty of Social Science in Prague. Between 2001-2005, he worked as an analyst of the Security Policy Department of the Czech Ministry of the Interior. Later he joined the Czech Government Office as the Deputy Director of the European Affairs Information Division (2005), he also worked in the European agenda section of ČEZ, a.s., and since 2006 at the Ministry for Regional Development at the position of the first Deputy Minister for European Affairs. On 10 January 2007 he was appointed the first Deputy Minister of Agriculture. He is a member of the Supervisory Board of EGAP, a.s.

Ing. Jiří Brudňák, Member

Graduate from the Czech Technical University in Prague. After graduation, he worked for most of his career at Škodaexport, a.s., where he held a number of posts, culminating in his membership of the Management and Steering Board. Currently, he is employed by CEB as a bank expert on territorial relations. He is not a member of any statutory bodies in any other companies.

Ing. Pavel Kašpar, Member

Graduate from the Czech Technical University in Prague, Faculty of Electrical Engineering. After completion of his studies he worked briefly as senior engineer in Albico, s.r.o. and he joined CEB in 1995, now as Director of the Department in charge of operation of banking information systems. He is not a member of any statutory bodies in any other companies.

Ing. Boris Kyselý, MBA, Member

Graduate from the Czech Technical University in Prague, physical engineering; between 1993 and 1995 he studied business finance and accounting at the University of Economics in Prague. He completed his MBA program at the Prague International Business School in 2004. After graduation from the Czech Technical University in 1978, he worked as an autonomous research and development employee in a.s. Let Kunovice. From 1992 he held the position of Deputy Head of the Czech Government Office; at this position, he was in charge for economy and operations of the Czech Government Office. In 1993 he switched to the Property Office under the Ministry of Finance, first as the Deputy Director and since 1996 as the Director of the organization. He joined CEB, a.s. in 1999 as the Deputy Director of the Analytical Department; in 2003 he took over the office of the Director of this department; at present, he works as the Strategy Director. He is not a member of statutory bodies in any other companies.

Martin Vaic, Member

He completed his secondary education with a matriculation examination, currently he is enrolled for distance studies at the Czech Technical University in Prague. After leaving his secondary school in 2000, he worked in the private sector and briefly also at the Ministry of Finance of the Czech Republic. He joined the CEB in 2004 as Operations Administrator. He is not a member of statutory bodies in any other companies.

Board of Directors

Ing. Josef Tauber, Chairman and Chief Executive Officer of the Czech Export Bank

Graduate from the Prague University of Economics. Since 1973 he worked for 28 years for Československá obchodní banka. He held a number of positions there, including Director of the Contracts Division (1984-86); Director of ČSOB's representative office in Frankfurt/Main, Germany (1986-1990); Member of the Board of Directors of Prager Handelsbank AG, a subsidiary of ČSOB, also in Frankfurt; Vice-Chairman of the Board of Directors and Senior Director from 1993 to 2001. In the period of 2001 – 2003, he worked in Inter-banka, a.s., as director of the restructuring section and advisor to the Chairman of the Board of Directors. He was appointed the CEO of the CEB in 2003. He is the Chairman of the Board of Directors of the Deposit Insurance Fund, a Member of the Executive Committee of the International Association of Deposit Insurers (IADI), and Presidium Member of the Czech Banking Association.

Ing. Miloslav Kubišta, Vice-Chairman, Chief Finance Officer

Graduate from the Prague University of Economics. In 1974-1978, he was employed in the Finance Department of ČKD DUKLA Prague, and in 1978-1991 in the central State administration in the finance division. Then he entered into the private banking sector. From 1994 to 1995, he was employed in EGAP, a.s. He joined CEB in 1995, and he was appointed the Deputy CEO for Finance in 1996. Currently, he is not a member of any statutory bodies in any other companies.

Ing. Karel Tlustý, MBA, Member, Chief Risk Officer

Graduate from the Czech Technical University in Prague, Sheffield Hallam University and Nottingham Trent University. After graduation, he worked for a short period of time as a marketing manager. He joined the banking industry in 1992 – first in Poštovní banka, a. s., then in Investiční a Poštovní banka, a.s., in the field of financial markets trading, currency position management, and bank liquidity. He worked for EGAP, a.s. in 1994 – 1995. In 1995, he joined CEB – commencing in 1997 as Chief Director of Risk Management; in May 2006, he was appointed the Deputy CEO in charge of risk management. He is a member of the Administrative Board of Nadační fond Rodina (Family Endowment Fund).

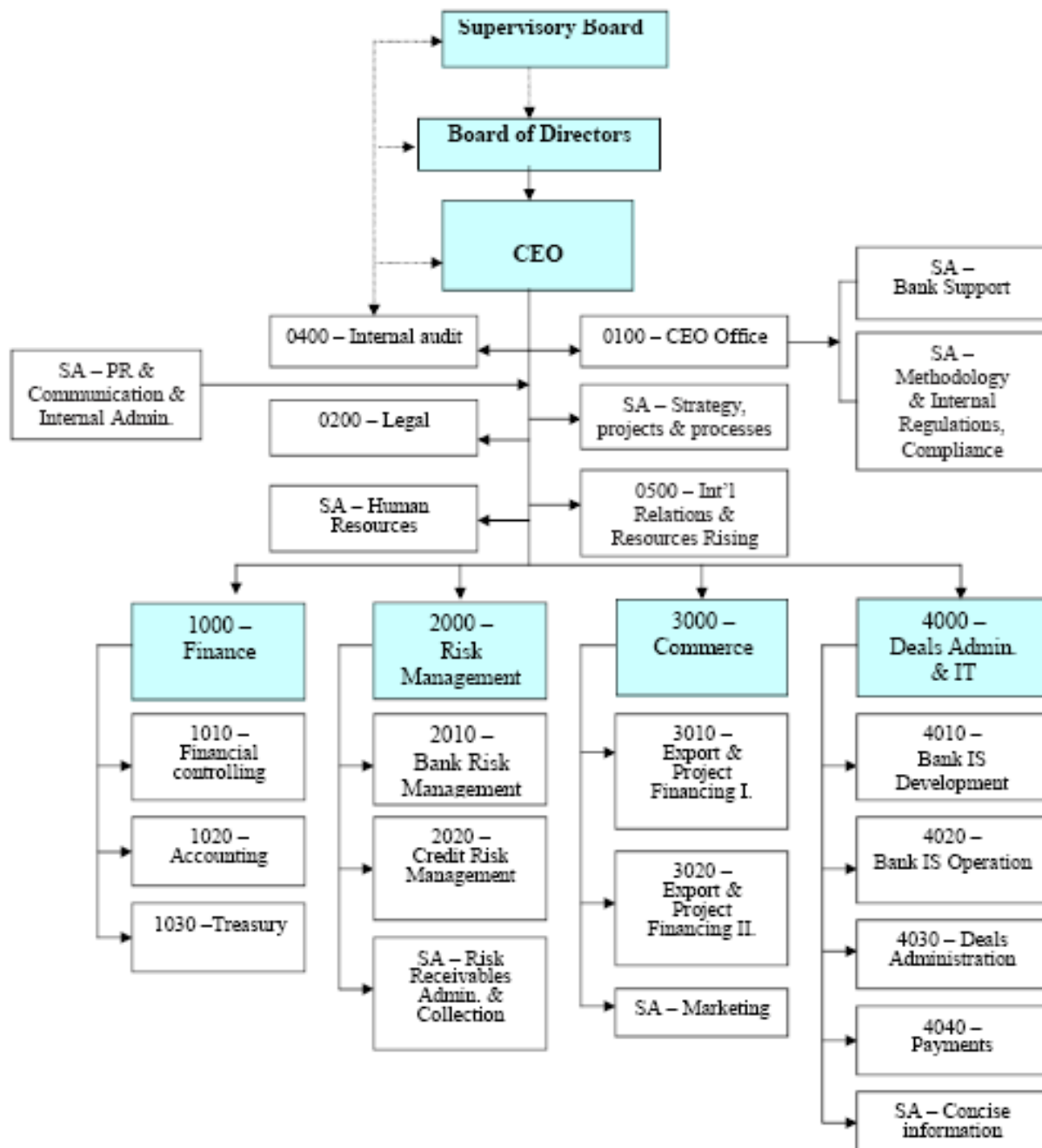
Ing. Miroslava Hrnčířová, CSc., Member, Chief Credit Officer

Graduate from the Prague University of Economics and the Philosophical Faculty of the Charles University in Prague. In 1987 she was awarded the degree for Doctor of Economic Science. After completing her studies, she was employed first in the banking sector. Later on, she worked as Director of the Forecasting Institute of the Czech Republic and as senior manager in consulting companies. In 1992-1994, she was a member of the Board of Directors and the top management of the joint-stock company Tatra Kopřivnice. She joined CEB in 1995. She is still registered in the Companies Register as the Executive of EAST SPACE, s.r.o. However, that is a long-time inactive company whose winding up with liquidation was ordered by the Municipal Court in Prague on 31 January 2006.

Ing. Ladislav Dvořák, Member, Chief Operation Officer

Graduate from the University of Economics in Prague. After graduation, he worked in various economic and managerial posts in a number of institutions and companies, e.g. Deputy Finance Minister, Chief Executive Officer of Melantrich a.s., and Deputy Minister of Trade and Industry. He became the Deputy CEO of CEB in 1999. He is a member of the Supervisory Board of the Association of Small- and Medium-Sized Entrepreneurs and Tradesmen in the Czech Republic.

2. Organizational Structure of the Czech Export Bank



E Independent Auditor's Report



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ENGLISH TRANSLATION

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 2007, 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 European Union. 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.

PriceWaterhouseCoopers Audit, s.r.o., registered seat Kotčfinská 40/488, 120 00 Prague 2, Czech Republic, Identification Number: 40769521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, lines 1/4827, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

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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 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

13 March 2008



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



Petr Kříž
Auditor, Licence No. 1140

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 or information, views or opinions, the original language version of our report takes precedence over this translation.

(2)

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 2007

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.

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ČESKÁ EXPORTNÍ BANKA, A.S.
 FINANCIAL STATEMENTS
 YEAR ENDED 31 DECEMBER 2007

INCOME STATEMENT

	Note	Year ended 31 December	
		2007 CZK'm	2006 CZK'm
Interest and similar income	6	1,353	1,051
Interest expense and similar charges	6	<u>(1,347)</u>	<u>(1,121)</u>
Net interest income	6	6	(70)
Fee and commission income	7	64	42
Fee and commission expense	7	<u>(10)</u>	<u>(8)</u>
Net fee and commission income	7	54	34
Net trading income	8	52	68
State subsidy	32	242	289
Impairment losses on loans	9	-	(1)
Other operating expenses	10	<u>(204)</u>	<u>(187)</u>
Profit before tax		150	133
Income tax expense	12	<u>(40)</u>	<u>(34)</u>
Profit for the year		<u>110</u>	<u>99</u>

The notes on pages 7 to 64 are an integral part of these financial statements.

ČESKÁ EXPORTNÍ BANKA, A.S.
 FINANCIAL STATEMENTS
 YEAR ENDED 31 DECEMBER 2007

BALANCE SHEET

	Note	As at 31 December	
		2007 CZK'm	2006 CZK'm
ASSETS			
Cash and balances with central bank	13	7	371
Eligible bills	14	-	739
Loans to banks	15	11,223	12,385
Loans to customers	16	17,671	9,009
Derivative financial instruments	17	1,689	1,427
Investment securities	18	2,087	1,056
- available-for-sale		811	692
- held-to-maturity		1,276	364
Pledged assets	18	1,334	-
Intangible assets	19	10	17
Equipment	20	20	10
Other assets	21	243	615
Current income tax assets		31	-
Deferred income tax assets	26	-	46
Total assets		34,315	25,675
LIABILITIES			
Due to banks	22	5,911	4,487
Due to customers	23	1,985	1,933
Derivative financial instruments	17	76	5
Debt securities in issue	24	23,455	16,309
Other liabilities	25	96	327
Provisions	31	5	-
Current income tax liabilities		-	40
Deferred income tax liabilities	26	18	-
Total liabilities		31,546	23,101
EQUITY			
Share capital	27	1,850	1,850
Retained earnings		112	101
Statutory reserve	28	370	370
Export risk reserve	28	337	238
Revaluation reserve	28	100	15
Total equity		2,769	2,574
Total liabilities and equity		34,315	25,675

The notes on pages 7 to 64 are an integral part of these financial statements.

ČESKÁ EXPORTNÍ BANKA, A.S.

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital CZK'm	Retained earnings CZK'm	Statutory reserve CZK'm	Export risk reserve CZK'm	Reva- luation reserve CZK'm	Total CZK'm
At 1 January 2006		1,850	33	350	227	(1)	2,459
Net change in Available for sale, net of tax	28	-	-	-	-	1	1
Net change in cash flow hedges, net of tax	28	-	-	-	-	15	15
Net profit for the year		-	99	-	-	-	99
Total recognised income		-	99	-	-	16	115
Transfer to export risk reserve		-	(11)	-	11	-	-
Transfer to statutory reserve		-	(20)	20	-	-	-
At 31 December 2006		1,850	101	370	238	15	2,574
Net change in Available for sale, net of tax	28	-	-	-	-	(5)	(5)
Net change in cash flow hedges, net of tax	28	-	-	-	-	90	90
Net profit for the year		-	110	-	-	-	110
Total recognised income		-	110	-	-	85	195
Transfer to export risk reserve		-	(99)	-	99	-	-
At 31 December 2007		1,850	112	370	337	100	2,769

The notes on pages 7 to 64 are an integral part of these financial statements.

CASH FLOW STATEMENT

	Note	Year ended 31 December	
		2007	2006
		CZK'm	CZK'm
Cash flows from operating activities			
Interest received		1,204	875
Interest paid		(1,223)	(1,055)
Net fee and commission received		58	46
Net trading and other income		(24)	(107)
Recoveries on loans previously written off		247	-
Cash payments to employees and suppliers		(180)	(162)
Income taxes (paid)/reimbursed		(69)	25
Other taxes (paid)		(19)	(17)
Net cash (used in) operating activities before changes in operating assets and liabilities		(6)	(395)
Changes in operating assets and liabilities			
Net decrease in loans to banks		1,185	574
Net (increase) in loans to customers		(9,958)	(630)
Net decrease in other assets/liabilities		396	93
Net increase in due to banks		1,725	423
Net increase in due to customers		108	1,242
Net cash (used in)/from operating activities		(6,550)	1,307
Cash flows from investing activities			
Purchase of fixed assets		(22)	(15)
Purchase of securities		(2,617)	(1,729)
Proceeds from matured securities		743	1,302
Net cash (used in) investing activities		(1,896)	(442)
Cash flows from financing activities			
Receipts from issue of bonds		8,876	-
Repayments (-)/Receipt (+) from capital contribution which has not been registered	32	(150)	150
Receipts of state subsidy	32	244	271
Net cash from financing activities		8,970	421
Effect of exchange rate changes on cash and cash equivalents		(7)	(2)
Net increase in cash and cash equivalents		517	1,284
Cash and cash equivalents at beginning of year	30	3,308	2,024
Cash and cash equivalents at end of year	30	3,825	3,308

The notes on pages 7 to 64 are an integral part of these financial statements.

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. In December 2007 the Bank started the process of registration of a representative office in Russia.

The Bank is authorised to perform banking services, which comprise foremost accepting accounts from the public in Czech and foreign currencies, granting of 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 of 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. The Bank is not profit oriented and therefore does not strive to maximise the interest margin and uses the profit to fund primarily its operating activities.

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 obligations of the Bank specified in this Act. The condition for providing of supported financing is that at least 2/3 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. The 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 employees.

Standard & Poor’s issued “A” credit rating to the Bank and Moody’s Investor Service issued “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 otherwise stated.

(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 management to 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 accounting period ending 31 December 2007 did not result in substantial changes to the Bank's accounting policies.

The application of IFRS 7 influenced the extent and the form of disclosed information about financial instruments, mainly the description of risk management related to those instruments. On a basis of request of amendment to IAS 1, information about capital management was disclosed.

- IFRS 7, Financial instruments: Disclosures;
- IAS 1, Presentation of financial statement (Amendment);
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivatives (effective 1 January 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006).

Further, the Bank has chosen not to early adopt the following standards and interpretations that were approved by European Union but not yet effective for accounting periods beginning on 1 January 2007:

- IFRIC 11 - Group and Treasury Share Transactions (effective 1 March 2007);
- IFRS 8, Operating segments (effective 16 November 2007)

2 ACCOUNTING POLICIES (continued)

(a) Basis of presentation (continued)

The Bank has not also used revised standards and new interpretation, which have not been approved by the European Union yet:

IAS 23, Borrowing Costs;
IAS 27, Consolidated and Separate Financial Statements;
IAS 32 and IAS 1 Amendment, Puttable financial instruments and obligations arising on liquidation, IAS 1, Presentation of financial statement (other updates);
IFRS 3, Business Combinations;
IFRS 2 Amendment, Share-based Payment Vesting Conditions and Cancellations;
IFRIC 12, Service Concession Arrangements;
IFRIC 13, Customer Loyalty Programmes; and
IFRIC 14, The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

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

(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.

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 are also the Bank's functional currency (i.e. currency of the primary economic environment).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing 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.

2 ACCOUNTING POLICIES (continued)

(c) Foreign currency translation (continued)

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

	<u>USD</u>	<u>EUR</u>
31 December 2007	18.078	26.620
31 December 2006	20.876	27.495

(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 forward. The bank minimises impact of interest rate and currency risk by closing the opened positions using this hedging instruments in order not to exceed the acceptable level of interest risk.

The Bank uses derivative financial instruments solely as hedging instruments to hedge opened positions against the interest rate and currency risk and do not conclude the derivatives to gain profit from short term movements of interest rates and foreign exchange rates. The derivative financial instruments are concluded with counterparties from OECD countries with investment rating granted by reputable rating agencies or credible domestic counterparties, of which the rating 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 market prices and 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 are such derivatives which are in compliance with interest rate risk and currency risk strategy, the hedging terms are documented in initial phase of hedging relationship and the hedging is efficient.

Result from derivatives which are not accounted under hedge accounting regime is recognised in the income statement under Net trading income.

2 ACCOUNTING POLICIES (continued)

(d) Derivative financial instruments (continued)

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 17). 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 asset or liability 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.

Cash flow hedge

The Bank has classified some hedging transaction as a cash flow hedge for the first time in 2006 (see Note 17). 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 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 fair value of hedging instrument with cumulative change in fair value of 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 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 are generally recognised on an accrual basis when the service has been provided. If it is probable that the entity will enter into a specific lending arrangement, the commitment fee received is deferred and recognised as an adjustment to the effective interest rate. 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-apportionate 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 asset held for trading, provided that:

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

Financial asset is at the time of its first capturing recognized as asset at fair value through profit or loss provided that:

- It eliminates or materially limits incompatibility in valuation or booking that would otherwise occur based on asset valuation or capturing of profits or losses generated by such assets on the different basis; or
- The group of financial assets or their combination 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.

Any changes of fair value are shown in the Net profit from trading item or Net profit from securities at fair value through profit or loss.

Management has not designated any instrument as Financial asset at fair value through profit or loss in the year 2007 and 2006.

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

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 would sell other than an insignificant amount of 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 where 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 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 of the given date based on the valuation technique.

(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 buy back contract (“repo”) are disclosed separately in the balance sheet, as pledged assets. The received settlement for sale is considered as 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 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 difficulty 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 to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession 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 individually 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 assets contractual terms.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease impairment losses recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Assets classified as available for sale

The Bank assesses at each balance sheet date 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

Loans that are subject to individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as renegotiated loans.

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, at each balance sheet date.

(l) Equipment

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

Depreciation on 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	4
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 amount. 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, at each balance sheet date.

Fixed assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances 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.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(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 bank, eligible bills, loans to banks other than export loans and current government securities.

Prior to 2006 mandatory minimum deposits with the central bank were excluded from Cash and cash equivalents. This policy was changed in 2006 and all balances with the central bank are included in Cash and cash equivalents. Management believes the revised presentation provides more relevant information about the Bank's financial position. This change has been applied retrospectively. The impact of this voluntary change in accounting policy is to increase Cash and cash equivalents as at 31 December 2005 by CZK 3 million. The operation of the mandatory minimum deposit with the central bank is described in Note 13.

(o) Employee benefits

The Bank governs through internal guidelines provision of employee benefits. 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 allocated resources 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.

2 ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

The Bank creates provision for other long-term employment benefits, such as life jubilees and retirement bonuses. This provision is created by a simple total of values of liabilities under these benefits as at the balance sheet day. The current value of the provision is calculated on the basis of incremental approach, which is taking into account fluctuation assumption.

(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 treatment 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

Category of financial liabilities at amortised cost is represented by Loans to banks, clients, debt securities in issue and other financial liabilities. Borrowings are recognised initially 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 is 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 the Bank receives subsidy from the state budget to cover losses resulting from its supported financing operations. The losses are calculated as the sum of:

- the accounted interest income from operating of 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 spent by the Bank to acquire the financial resources.

The income from the state subsidy is recognized in the accounting period when the loss occurs. Title to the state subsidy is recognized in other receivables when it is virtually certain. Subsidies repayable to the state, which may result mainly from release of previously subsidised provisions for loan losses, are recognised as liabilities when their repayment becomes probable.

(t) Provisions

Provisions for restructuring costs and legal claims 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, credit commitments, collaterals and guarantees received

The Bank also acts as an issuer of guarantees. Bank guarantee contracts are contractual relationships determining that the issuer will provide to the beneficiary monetary payment guarantee 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 at the balance sheet date.

These estimates are determined based on experience of 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.

2 ACCOUNTING POLICIES (continued)

(u) Guarantees, credit commitments, collaterals and guarantees received (continued)

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

The Bank also receives guarantees issued by other banks and other collaterals from its clients as a means of security. An important component of collateral received is an insurance of export credit risks arranged by the Bank or in favour of the Bank. The collaterals are 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 in the moment of insurance event.

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 by bonds issues and by non-current borrowings, current borrowings from the inter-bank market are used as an additional source of funding. The Bank does not strive to maximise the interest margin, since the Bank is not profit oriented (Note 1). 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 credit standing. 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 market as well as on OTC market to take advantage of short-term market movements in currency and interest rate prices.

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 minimize the impact of changes in fair value on 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, FRA, currency derivatives and cross-currency interest rate swaps.

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 the money markets and capital markets. The Bank has established a system of approval authorities depending on the level of credit exposure.

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

Rating models have been developed based in internally-produced methodology. They combine statistical analysis with expert assessment by the risk manager. The entities were divided into 15 rating grades in the year 2007. One rating grade has been created for defaulted entities. 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 a 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.

During revisions and updates of the rating system, the Bank has prepared changes in the scale system: there are 7 grades plus 1 grade for the entities in default in the year 2007.

Impairment provisions are provided for losses on quarterly basis. 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 country of borrower's residence, concentration of industry and concentration in selected rating categories. To mitigate the credit risk the Bank uses in accordance with Act No. 58/1995 Coll. mainly the insurance provided by EGAP and other collaterals.

Such risks are monitored on a monthly basis and subject to an annual review. Limits on the level of credit risk are approved by the Credit Committee within the delegation of responsibilities of the Board of Directors.

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The exposure to any one borrower or to an economically related group of borrowers is restricted by sub-limits covering on- and off-balance sheet exposures. The exposure to banks and brokers is further restricted by sub-limits for the settlement risk. The significant concentration of credit risk to one borrower or group of borrowers, where a probability of the failure is influenced by the common risk factor (territory, industry, rating of the subject), are restricted by concentration sub-limits. Actual exposures against limits are monitored daily.

Maximum credit risk exposure before hedge instruments are applied

	Maximum exposure	
	2007	2006
	CZK'm	CZK'm
<u>Balance sheet exposure</u>		
Loans to banks	11,230	12,756
Loans to customers	17,671	9,009
Eligible bills	-	739
Investment securities	2,087	1,056
- available-for-sale	811	692
- held-to-maturity	1,276	364
Pledged assets	1,334	-
Derivative financial instruments	1,689	1,427
Other assets financial	106	455
Other assets non-financial incl. current income tax assets	168	206
	<u>34,285</u>	<u>25,648</u>
<u>Off balance sheet exposure</u>		
Financial guarantees	4,004	2,946
Credit commitments	18,694	13,245
Other financial credits	487	304
	<u>23,185</u>	<u>16,494</u>
	<u>57,470</u>	<u>42,142</u>

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

The basis method for reduction of credit risk of the Bank is insurance of export credit risk EGAP concluded for the benefit of the Bank according to Act No. 58/1995 Coll. The Bank also uses cash 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.

For the purposes of credit risk management, the insurance and other collaterals are recognised in nominal value, which is close to its estimated fair value.

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Financial derivatives

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

Other financial assets

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

Loans

	Year ended 31 December 2007		Year ended 31 December 2006	
	Loans to other banks	Loans to customers	Loans to other banks	Loans to customers
	CZK' m	CZK' m	CZK' m	CZK' m
Neither past due nor impaired	6,294	17,179	8,615	8,866
Past due but not impaired	-	258	-	19
Impaired	-	373	-	581
Total	6,294	17,810	8,615	9,466
Less: allowance for impairment	-	(139)	-	(457)
Total credits	6,294	17,671	8,615	9,009
Other receivables neither past due nor impaired	4,929	-	3,770	-
Loans total	11,223	17,671	12,385	9,009

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.

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Loans neither past due nor impaired

internal rating	2007			2006			
	Banks CZK'm	Customers CZK'm	Total CZK'm	Banks CZK'm	Customers CZK'm	Total CZK'm	
Ultrahigh credit quality	2	379	-	379	583	-	583
High credit quality	3	1,249	-	1,249	1,652	-	1,652
Good credit quality	4,5,6	3,635	669	4,304	3,078	295	3,373
Speculative	7,8,9	44	4,080	4,124	2,066	4,074	6,140
Significantly speculative	10,11	335	3,921	4,256	42	919	961
Vulnerable	12,13	82	1,351	1,433	1,188	1,594	2,782
Unsatisfactory, improvable	14	570	298	868	-	907	907
Direct danger default	15	-	1,728	1,728	6	757	763
Project Financing	15	-	5,132	5,132	-	320	320
Total credits		6,294	17,179	23,473	8,615	8,866	17,481
Ultrahigh credit quality	2	1,853	-	1,853	2,130	-	2,130
High credit quality	3	2,945	-	2,945	1,640	-	1,640
Good credit quality	4,5,6	131	-	131	-	-	-
Other receivables total		4,929	-	4,929	3,770	-	3,770
Loans total		11,223	17,179	28,402	12,385	8,866	21,251

During the year 2007 the Bank increased its activity in the so called "green field" projects, where a creditor is a special purpose vehicle ("SPV"). These entities are allocated rating 15 due to non-existing business history.

Loans past due but not impaired

	Year ended 31 December 2007		Year ended 31 December 2006	
	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	-	221	-	19
Past due 90 - 180 days	-	37	-	-
Total	-	258	-	19
Collateral	-	252	-	15

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Impaired loans

	Year ended 31 December 2007		Year ended 31 December 2006	
	Loans to other banks	Loans to customers	Loans to other banks	Loans to customers
	CZK'm	CZK'm	CZK'm	CZK'm
Individually impaired loans	-	373	-	581
Fair value of collateral	-	231	-	119

Renegotiated loans

	2007 CZK'm	2006 CZK'm
Loans to customers	-	35
Total	-	35

Credit-related commitments

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 on 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.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to 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 extend credit are contingent upon customers maintaining specific credit standards.

3 FINANCIAL RISK MANAGEMENT (continued)

(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 items 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
At 31 December 2007					
Czech Republic	7,704	9,337	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	-	-
Canada, USA and Japan	963	1	607	(38)	-
	34,315	31,546	22,698	1,469	20
At 31 December 2006					
Czech Republic	7,336	7,819	6,655	(292)	12
Russia, Ukraine, Belarus, Moldavia	4,735	158	5,840	(68)	-
Other European countries	5,477	15,107	1,089	2,539	-
Turkey	3,593	-	-	(376)	-
China	3,069	-	-	(494)	-
Iran	913	-	50	(110)	-
Azerbaijan, Tajikistan	512	17	2,557	(38)	-
Canada, USA and Japan	40	-	-	-	-
	25,675	23,101	16,191	1,161	12

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

3 FINANCIAL RISK MANAGEMENT (continued)

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

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 markets, 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 7,983 million at 31 December 2007 (2006: CZK 10,377 million), of which CZK 1,688 million (2006: CZK 1,427 million) consisted of derivative financial instruments.

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

	31 December 2007		31 December 2006	
	CZK'm	%	CZK'm	%
Russia, Ukraine, Belarus, Moldavia	8,694	30	4,705	22
Georgia	3,632	13	-	-
Czech Republic	6,713	23	5,000	23
Turkey	2,792	10	3,593	17
China	1,898	6	3,069	15
Other European countries	3,604	12	3,714	18
Azerbaijan, Tajikistan, Mongolia	727	3	390	2
Iran	570	2	913	4
United States of America	264	1	10	-
	28,894	100	21,394	100

3 FINANCIAL RISK MANAGEMENT (continued)

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

	Total assets	Total liabilities	Credit commitments and guarantees	Revenues	Capital expenditure
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
At 31 December 2007					
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	15,865	30,087	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	26	1,492	(12)	-
	34,315	31,546	22,698	1,469	20
At 31 December 2006					
Agriculture, hunting, forestry	25	-	-	-	-
Mineral wealth mining	95	16	73	(8)	-
Processing industry	3,159	543	4,758	(4)	-
Production and distribution electricity, gas and water	4,883	97	1,830	(381)	-
Building industry	123	364	636	7	-
Trade; repairs vehicle and household ware	113	535	1,969	41	-
Transport, warehousing and communications	443	43	2,446	(3)	-
Financial intermediation	15,157	21,304	815	1,511	12
Activity of immovables area and leasing area	6	44	1,273	4	-
Public administration, defence; social security obligatory	1,671	155	2,391	(6)	-
	25,675	23,101	16,191	1,161	12

3 FINANCIAL RISK MANAGEMENT (continued)

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

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

Loans

	31 December 2007		31 December 2006	
	CZK'm	%	CZK'm	%
Agriculture, hunting, forestry	60	-	25	-
Mineral wealth mining	635	2	95	-
Processing industry	4,250	15	3,124	15
Production and distribution electricity, gas and water	8,188	28	4,828	23
Building industry	86	-	123	1
Trade; repairs vehicle and household ware	129	-	76	-
Transport, warehousing and communications	1,980	7	442	2
Financial intermediation	11,223	39	12,386	58
Activity of immovables area and leasing area	1,728	6	-	-
Public administration, defence; social security obligatory	615	2	295	1
	28,894	100	21,394	100

(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 breakdown of interest risk in individual currency and 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. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The Bank uses a linear parametric model for calculation of 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 holding period of 10 days in CZK. All VAR values are summarised in the table below.

3 FINANCIAL RISK MANAGEMENT (continued)

(e) Market risk (continued)

VAR summary

<u>100 days VAR</u> CZK'm	12 months to 31 December 2007			12 months to 31 December 2006		
	Average	High	Low	Average	High	Low
Interest rate risk	52.56	138.05	26.58	50.64	90.27	25.29
Foreign exchange risk	0.85	7.72	0.27	1.19	3.35	0.32
Total VAR	52.44	137.16	26.43	50.29	90.19	25.23

<u>260 days VAR</u> CZK'm	12 months to 31 December 2007			12 months to 31 December 2006		
	Average	High	Low	Average	High	Low
Interest rate risk	53.17	107.96	29.39	50.36	76.43	38.15
Foreign exchange risk	0.88	7.15	0.35	1.22	3.33	0.39
Total VAR	53.08	107.57	29.37	49.97	76.30	37.64

The backtesting of VAR model is performed regularly. Following table shows a result of backtesting as of 31 December 2007 and 2006:

<u>Year</u>	<u>Number of observation</u>	<u>Reached reliability for interest risk</u> %	<u>Reached reliability for currency risk</u> %	<u>Number of cases with higher loss for interest risk</u> CZK'm	<u>Number of cases with higher loss for currency risk</u> CZK'm
2006	183	97.3	98.4	5	3
2007	247	96.4	98.8	7	3

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

Management of the Bank is daily informed about actual exposure to market risk within "morning report", which includes information about VAR and the backtesting of VAR, results of sensitivity analysis and information about currency risk. The complex report containing information about positions and progression of market risk is reported to Assets and liabilities committee ("ALCO") regularly every month.

3 FINANCIAL RISK MANAGEMENT (continued)

(f) Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign currency exchange rate risk is managed using analysis of currency sensitivity and VAR, for which a set of limits has been established. The foreign currency exchange rate risk is reflected in capital adequacy requirement for the Bank on a daily basis. The table below summarises the Bank's exposure to currency exchange rate risk at 31 December 2007 and 2006. 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.

Concentrations of assets, liabilities and off balance sheet items

<u>At 31 December 2007</u>	<u>CZK</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
Assets					
Cash and balances with central banks	7	-	-	-	7
Loans to other banks	1,840	6,497	2,872	14	11,223
Loans to customers	267	4,688	12,711	5	17,671
Derivative financial instruments	1,509	6	174	-	1,689
Investment securities	1,174	913	-	-	2,087
- available-for-sale	811	-	-	-	811
- held-to-maturity	363	913	-	-	1,276
Pledged assets	-	-	1,334	-	1,334
Intangible assets	10	-	-	-	10
Property and equipment	20	-	-	-	20
Other assets, including tax	126	50	97	1	274
Total assets	4,953	12,154	17,188	20	34,315
Liabilities					
Due to other banks	-	2,089	3,822	-	5,911
Due to customers	573	820	592	-	1,985
Derivative financial instruments	26	7	43	-	76
Debt securities in issue	5,645	9,243	8,567	-	23,455
Other liabilities, including tax	98	4	17	-	119
Total liabilities	6,342	12,163	13,041	-	31,546
Net on-balance sheet items	(1,389)	(9)	4,147	20	2,769
Currency forward	5,500	-	(3,992)	-	1,508
Net currency position	4,111	(9)	155	20	4,277

3 FINANCIAL RISK MANAGEMENT (continued)

(f) Currency risk (continued)

<u>At 31 December 2006</u>	<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
Total assets	4,572	13,800	7,292	11	25,675
Total liabilities	<u>6,339</u>	<u>13,631</u>	<u>3,131</u>	<u>-</u>	<u>23,101</u>
Net on-balance sheet position	(1,767)	169	4,161	11	2,574
Currency forward	<u>5,622</u>	<u>(110)</u>	<u>(4,124)</u>	<u>-</u>	<u>1,388</u>
Net currency position	<u><u>3,855</u></u>	<u><u>59</u></u>	<u><u>37</u></u>	<u><u>11</u></u>	<u><u>3,962</u></u>

(g) Cash flow and fair value interest rate risk

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

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

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

(h) Liquidity risk

Liquidity risk arises from different types of financing of the Bank and 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. The Bank has access to diversified sources of finance. These sources comprise issued bonds, syndicated loans from 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. 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.

These tables below analyse the Bank's liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

3 FINANCIAL RISK MANAGEMENT (continued)

(h) Liquidity risk (continued)

Maturity of non-derivative financial liabilities

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
<u>31 December 2007</u>	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
Liabilities						
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
Total liabilities	<u>1,527</u>	<u>109</u>	<u>5,708</u>	<u>20,034</u>	<u>8,915</u>	<u>36,293</u>
Loan commitments	3,282	3,481	7,351	4,580	0	18,694
<u>31 December 2006</u>						
Liabilities						
Due to other banks	44	-	447	2,361	2,224	5,076
Due to customers	1,644	49	49	164	41	1,947
Debt securities in issue	-	-	920	18,042	-	18,962
Total liabilities	<u>1,688</u>	<u>49</u>	<u>1,416</u>	<u>20,567</u>	<u>2,265</u>	<u>25,985</u>
Loan commitments	1,569	1,759	6,555	3,362	-	13,245

Maturity of derivative liabilities

Derivatives to be settled net include liabilities of interest derivatives, such as interest swaps and FRA.

All interest rate derivatives in the Bank's portfolio are designated as hedging.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
<u>31 December 2007</u>	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
Hedging derivatives	(19)	-	23	(17)	-	(13)
<u>31 December 2006</u>						
Hedging derivatives	(9)	-	12	(7)	-	(4)

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

3 FINANCIAL RISK MANAGEMENT (continued)

(h) Liquidity risk (continued)

All currency and 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
31 December 2007						
Derivatives held for trading						
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
Total outflow	27	47	142	4,968	-	5,184
Total inflow	27	57	172	6,537	-	6,793
31 December 2006						
Derivatives held for trading						
Foreign exchange derivatives						
outflow	70	-	40	-	-	110
inflow	78	-	44	-	-	122
Cross currency swaps						
outflow	-	-	116	4,559	-	4,675
inflow	-	-	106	5,897	-	6,003
Total outflow	70	-	156	4,559	-	4,785
Total inflow	78	-	150	5,897	-	6,125

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded. In case this would happen, the Bank can use accessible resources in form of received credit commitments or counter-guarantees.

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 (amortized cost and related impairment) includes only incurred losses at the balance sheet date.

	Carrying value		Fair value	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
	CZK'm	CZK'm	CZK'm	CZK'm
Financial assets				
Loans to other banks	11,223	12,385	11,307	12,348
Loans to customers	17,671	9,009	17,965	8,853
Securities held-to-maturity	2,610	364	2,605	366
Eligible bills held-to-maturity	-	242	-	227
Financial liabilities				
Due to other banks	5,911	4,487	5,837	4,280
Due to customers	1,985	1,933	1,985	1,935
Debt securities in issue	23,455	16,309	24,071	16,966
Loan commitments given	18,694	13,400	9	6

Loans to other banks

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

Loans to customers and held to maturity investments

The estimated fair value of loans and held to maturity investments represents the discounted amount of estimated future cash flows expected to be received. 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 instrument at the yearend including existing credit enhancements.

3 FINANCIAL RISK MANAGEMENT (continued)

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

Due to other banks and customers

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 quoted market price is based on discounted cash flows using the prevailing yield curve for respective maturity.

Debt securities in issue

For debt securities in issue a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(j) Capital management

The aim of the Bank with respect to the 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 subsidized financing provided pursuant to Law No. 58/1995 Coll.

Information about the capital and regulatory capital adequacy are daily available to the management of the Bank. The 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 business activities of banks came into force implementing the new capital concept indicated as Basel II into national legislation. The banks are obliged to maintain the capital at the minimum of the level equal to the total of individual capital requirements to cover credit, market and operational risks. For percentage expression of regulatory capital adequacy the capital adequacy limit is used, which is calculated as 8% of the ratio in whose numerator is the Bank's equity and in the denominator is the total of individual capital requirements.

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 of effectiveness of the CNB regulation (Basel I). The capital adequacy of the Bank in 2007 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 Bank's shareholders, statutory reserve funds and other reserves (Tier 1 part).

3 FINANCIAL RISK MANAGEMENT (continued)

(j) Capital management (continued)

Risk weighted assets of the investment portfolio are categorized according to the substance to four groups of assets in relation to the counterparty and measured by strictly specified risk weights reflecting the valuation of the credit risk by the regulator. In calculating the risk weighted assets, the Bank also takes into account the collateral and securing of exposures.

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

	<u>2007</u> CZK'm	<u>2006</u> CZK'm
Tier 1 capital		
Share capital	1,850	1,850
Statutory reserve	370	370
Other reserves	337	238
Less: Intangible assets other than Goodwill	<u>(10)</u>	<u>(17)</u>
Total qualifying Tier 1 capital	<u>2,547</u>	<u>2,441</u>
Tier 2 capital	<u>-</u>	<u>-</u>
Total regulatory capital	<u>2,547</u>	<u>2,441</u>
Risk-weighted assets		
On-balance sheet assets of investment portfolio	3,863	1,951
Credit equivalents to off-balance sheet assets of investment portfolio	<u>1,333</u>	<u>984</u>
Total risk-weighted assets	<u>5,196</u>	<u>2,935</u>
Other capital requirements	19	684
Basel ratio	<u>48.84%</u>	<u>67.45%</u>

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 to assess impairment at least on a quarterly basis. 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 for impaired loans estimates the expected cash flows and their timing. 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 for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In case that collateral value (besides EGAP insurance and cash which are considered to be of high bonity) which the Bank considers for allowance calculation, would fall by 25%, value of allowances would increase by CZK 1 million.

(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. which was designed to support Czech export.

(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 impact 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 four years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The tax authorities have carried out full-scope income tax audit at the Bank for the years 2002 – 2004. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

5 BUSINESS SEGMENTS

Geographical segments as at 31 December 2007 and 2006 are set out in Note 3(c) and are considered to be the primary segment. Bank's activity is homogenous and there exists only one business segment of export financing.

6 NET INTEREST INCOME

	<u>2007</u>	<u>2006</u>
	CZK'm	CZK'm
<u>Interest and similar income</u>		
Loans to banks	389	539
Loans to customers	693	457
	<u>1,082</u>	<u>996</u>
Amortisation of fair value of hedged loans	(47)	(69)
Current accounts and current funds	209	76
Investment securities	106	39
- available-for-sale	26	24
- held-to-maturity	46	15
- securities held-to-maturity repurchase agreement	34	-
Securities borrowed and reverse repos	4	9
Net gains/losses on hedged items from FV hedges	(1)	(20)
Net gains/losses on hedging instruments from FV hedges	-	20
	<u>1,353</u>	<u>1,051</u>
<u>Interest expense and similar charges</u>		
Deposits from banks	(178)	(116)
Due to customers	(52)	(18)
	<u>(230)</u>	<u>(134)</u>
Debt securities in issue	(1,084)	(987)
Securities lent and repos	(33)	-
Net gains/losses on hedged items from FV hedges	(14)	(1)
Net gains/losses on hedging instruments from FV hedges	14	1
	<u>(1,347)</u>	<u>(1,121)</u>
Net interest income/(expense)	<u>6</u>	<u>(70)</u>

Included within interest income for 2007 is CZK 7 million (2006: CZK 6 million) with respect to interest income accrued on impaired loans.

7 NET FEE AND COMMISSION INCOME

	<u>2007</u> CZK'm	<u>2006</u> CZK'm
<u>Fee and commission income</u>		
Fees received for guarantees	16	16
Commitment fees	27	12
Fees for system of payments	16	9
Other received fees	<u>5</u>	<u>5</u>
	<u>64</u>	<u>42</u>
<u>Fee and commission expense</u>		
Commitment fees	-	(2)
Fees for consulting services	(5)	-
Other fees paid	<u>(5)</u>	<u>(6)</u>
	<u>(10)</u>	<u>(8)</u>
Net fee and commission income / (expense)	<u><u>54</u></u>	<u><u>34</u></u>

8 NET TRADING INCOME

	<u>2007</u> CZK'm	<u>2006</u> CZK'm
Foreign exchange:		
- translation gains less losses	(78)	(235)
- transaction gains less losses	38	56
Derivative instruments	<u>92</u>	<u>247</u>
	<u><u>52</u></u>	<u><u>68</u></u>

Foreign exchange net trading income includes gains and losses from spot contracts and translated foreign currency assets and liabilities. Derivative instruments include the results of transactions in interest rate and currency swaps entered into in order to reduce the risk exposures of the Bank.

9 IMPAIRMENT LOSSES ON LOANS

	<u>Note</u>	<u>2007</u> CZK'm	<u>2006</u> CZK'm
Allowances for losses on loans to customers	16	317	(1)
Allowances covered by credit insurance on bad debts	16	-	(338)
Receivables from clients written off		(317)	-
Claims from credit insurance on bad debts		-	338
Impairment losses on loans		<u><u>-</u></u>	<u><u>(1)</u></u>

10 OTHER OPERATING EXPENSES

	Note	2007 CZK'm	2006 CZK'm
Staff costs	11	(116)	(107)
Administrative expenses		(45)	(44)
Software amortisation	19	(15)	(14)
Operating lease rentals		(15)	(15)
Depreciation of non-current tangible assets		(6)	(5)
Other		(7)	(2)
		<u>(204)</u>	<u>(187)</u>

11 STAFF COSTS

	Note	2007 CZK'm	2006 CZK'm
Salaries and emoluments		(82)	(75)
Social and health security costs		(29)	(27)
Other staff costs	31	(5)	(5)
Total short-term employee benefits	10	<u>(116)</u>	<u>(107)</u>

The average evidence number of employees of the Bank was 116 in 2007 (2006: 115).

12 INCOME TAX EXPENSE

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

	Note	2007 CZK'm	2006 CZK'm
Income tax payable		(2)	63
Deferred tax	26	42	(29)
Income tax expense		<u>40</u>	<u>34</u>
Profit/Loss before taxation		150	133
Expected tax 24% (2006: 24%)		36	32
Effects of tax rate reduction (2008: 21%; 2009: 20%; 2010: 19%)		2	-
Permanent non-tax deductible expenses		4	2
Other		-2	-
Income tax expense		<u>40</u>	<u>34</u>

13 CASH AND BALANCES WITH CENTRAL BANK

	<u>Note</u>	31 December 2007 CZK'm	31 December 2006 CZK'm
Reverse repo transactions included in cash equivalents		-	334
Mandatory reserve deposits with central bank		<u>7</u>	<u>37</u>
Cash and balances with central bank	30	<u>7</u>	<u>371</u>

Mandatory reserve deposits are set up as 2 % of deposits from non-banking clients which maturity is shorter than 2 years, recorded at the end of month preceding the month in which 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 2007 or 2006. As these balances are available on a daily basis, these are included in cash and cash equivalents (Note 30).

14 ELIGIBLE BILLS

Eligible bills are short-term debt securities issued by Czech Ministry of Finance with original maturity between 3 months and one year.

	31 December 2007 CZK'm	31 December 2006 CZK'm
Eligible bills available-for-sale	-	498
Eligible bills held-to-maturity	<u>-</u>	<u>241</u>
Total eligible bills	<u>-</u>	<u>739</u>
Remaining maturity:		
Current eligible bills	<u>-</u>	<u>739</u>

15 LOANS TO BANKS

	Note	31 December 2007 CZK'm	31 December 2006 CZK'm
Current accounts with other banks		43	9
Placements with other banks due within 3 months		<u>3,775</u>	<u>2,928</u>
Included in cash equivalents	30	3,818	2,937
Placements with other banks due in more than 3 months		1,111	833
Loans to other banks		<u>6,294</u>	<u>8,615</u>
Loans to banks		<u>11,223</u>	<u>12,385</u>
Remaining maturity:			
Current loans to banks		6,693	5,723
Non-current loans to banks		<u>4,530</u>	<u>6,662</u>

There has been no impairment on loans to banks.

16 LOANS TO CUSTOMERS

	31 December 2007 CZK'm	31 December 2006 CZK'm
<u>Loans to corporate entities:</u>		
Pre-export funding	1,786	1,440
Export funding	10,417	7,043
Investment	4,751	978
Operating	589	-
For bank guarantee	5	5
For factoring	<u>262</u>	<u>-</u>
	17,810	9,466
Allowance for loan impairment	<u>(139)</u>	<u>(457)</u>
Loans to customers	<u>17,671</u>	<u>9,009</u>
Remaining maturity:		
Current loans to customers	2,587	1,436
Non-current loans to customers	<u>15,084</u>	<u>7,573</u>

16 LOANS TO CUSTOMERS (continued)

Allowance for impairment on loans to customers

Movement in impairment allowance can be analysed as follows:

	<u>Note</u>	<u>2007</u> CZK'm	<u>2006</u> CZK'm
<u>At 1 January</u>		457	119
Additions to allowance	9	208	339
Utilisation for write offs		(318)	-
Release of allowance		(207)	-
Net movement in allowances	9	(317)	339
Foreign exchange differences		(1)	(1)
<u>At 31 December</u>		<u>139</u>	<u>457</u>

17 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 future and for exchange rate set at the contractual date. Forward rate agreements call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

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 obligation.

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.

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.

17 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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	Liabilities	Assets	Liabilities
	CZK'm	CZK'm	CZK'm	CZK'm
<u>31 December 2007</u>				
Derivatives held for trading	6,264	4,755	1,508	-
Hedging derivatives	<u>16,658</u>	<u>16,658</u>	<u>181</u>	<u>76</u>
Total derivatives	<u>22,922</u>	<u>21,413</u>	<u>1,689</u>	<u>76</u>
Remaining maturity:				
Current derivatives held for trading	27	27	1	-
Non-current derivatives held for trading	<u>6,237</u>	<u>4,728</u>	<u>1,507</u>	<u>-</u>
Non-current hedging derivatives	<u>16,658</u>	<u>16,658</u>	<u>181</u>	<u>76</u>
<u>31 December 2006</u>				
Derivatives held for trading	5,649	4,261	1,389	-
Hedging derivatives	<u>2,762</u>	<u>2,762</u>	<u>38</u>	<u>5</u>
Total derivatives	<u>8,411</u>	<u>7,023</u>	<u>1,427</u>	<u>5</u>
Remaining maturity:				
Current derivatives held for trading	149	137	13	-
Non-current derivatives held for trading	<u>5,500</u>	<u>4,124</u>	<u>1,376</u>	<u>-</u>
Non-current hedging derivatives	<u>2,762</u>	<u>2,762</u>	<u>38</u>	<u>5</u>

17 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives held for trading

31 December 2007	Notional amount		Fair values	
	Assets CZK'm	Liabilities CZK'm	Assets CZK'm	Liabilities CZK'm
<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	-
Total derivatives held for trading	6,264	4,755	1,508	-
31 December 2006				
<u>Foreign exchange derivatives</u>				
Forward	122	110	13	-
<u>Interest rate derivatives</u>				
Interest rate swaps	27	27	-	-
Cross-currency interest rate swap	5,500	4,124	1,376	-
Total derivatives held for trading	5,649	4,261	1,389	-

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

Hedging fair value derivatives

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

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

17 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedging fair value derivatives (continued)

31 December 2007	Notional amount		Fair values	
	Assets CZK'm	Liabilities CZK'm	Assets CZK'm	Liabilities CZK'm
<u>Interest rate derivatives</u>				
Interest rate swaps	3,269	3,269	26	26
Total hedging derivatives	3,269	3,269	26	26
31 December 2006				
<u>Interest rate derivatives</u>				
Interest rate swaps	1,387	1,387	18	5
Total hedging derivatives	1,387	1,387	18	5

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 coupon). In addition, the Bank executed an interest swap in 2007 in order to hedge cash flows from the received loan. By interest swaps it transfers the variable interest payments of the Bank's funds to fixed ones, thus hedging cash flows of financial liabilities of the Bank.

The testing of hedging effectiveness showed that the 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 recognized in equity. As at 31 December 2007, the Bank has not recognized profit or loss related to ineffective part of hedging.

31 December 2007	Contract/notional amount		Fair values	
	Assets CZK'm	Liabilities CZK'm	Assets CZK'm	Liabilities CZK'm
<u>Interest rate derivatives</u>				
Interest rate swaps	13,389	13,389	155	50
Total hedging derivatives	13,389	13,389	155	50
31 December 2006				
<u>Interest rate derivatives</u>				
Interest rate swaps	1,375	1,375	20	-
Total hedging derivatives	1,375	1,375	20	-

17 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
<u>31 December 2007</u>					
<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

Cash flow hedges from resources which are subject to variable interest:

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

31 December 2006

Cash flow hedges of future commitments:

Interest rate swap	EUR	50	1,375	23.8.2007	25.8.2014
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Changes of fair value hedges through profit or loss

	<u>Gains</u> CZK'm	<u>Losses</u> CZK'm
<u>At 31 December 2007</u>		
<u>Fair value hedges</u>		
Debt securities in issue	14	-
<u>At 31 December 2006</u>		
<u>Fair value hedges</u>		
Loans to customers	-	(20)
Debt securities in issue	1	-

18 INVESTMENT SECURITIES

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

Sorted by listing status

	Total		AAA		AA+ to AA-		A+ to A-		lower than A-	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm	CZK'm
Securities available-for-sale										
- listed	374	254	-	-	-	-	324	203	50	51
- unlisted	437	438	-	-	30	30	303	303	104	105
	811	692	-	-	30	30	627	506	154	156
Securities held-to-maturity										
- listed	1,166	251	733	-	-	-	433	251	-	-
- unlisted	110	113	-	-	-	-	55	-	55	113
	1,276	364	733	-	-	-	488	251	55	113
Total investment securities	2,087	1,056	733	-	30	30	1,115	757	209	269
Repurchase agreement										
- securities held-to-maturity										
- unlisted	1,334	-	-	-	667	-	667	-	-	-
	1,334	-	-	-	667	-	667	-	-	-
Pledged assets total	1,334	-	-	-	667	-	667	-	-	-

Pledged assets represent securities used in standard repurchase agreements.

18 INVESTMENT SECURITIES (continued)

Sorted by liquidity

	<u>Total</u>		<u>AAA</u>		<u>AA+ to AA-</u>		<u>A+ to A-</u>		<u>lower than A-</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<u>CZK'</u>	<u>CZK'</u>	<u>CZK'</u>	<u>CZK'</u>	<u>CZK'</u>	<u>CZK'</u>	<u>CZK'm</u>	<u>CZK'</u>	<u>CZK'</u>	<u>CZK'm</u>
	m	m	m	m	m	m	m	m	m	m
Securities available-for-sale										
- current	151	-	-	-	-	-	151	-	-	-
- non-current	660	692	-	-	30	30	476	506	154	156
Securities held-to-maturity										
- current	1,166	-	733	-	-	-	433	-	-	-
- non-current	110	364	-	-	-	-	55	251	55	113
Repurchase agreement - securities held-to-maturity										
- non-current	1,334	-	-	-	667	-	667	-	-	-

In 2006 and 2007 no impairment of investment securities and no reclassification has incurred.

19 INTANGIBLE ASSETS

<u>Software</u>	<u>2007</u>	<u>2006</u>
	<u>CZK'm</u>	<u>CZK'm</u>
<u>At 1 January</u>		
Costs	85	80
Accumulated amortisation	(68)	(54)
Net book amount	17	26
<u>Year ended 31 December</u>		
Opening net book amount	17	26
Additions	7	5
Amortisation costs	(14)	(14)
Closing net book amount	10	17
<u>At 31 December</u>		
Cost	92	85
Accumulated amortisation	(82)	(68)
Net book amount	10	17

20 EQUIPMENT

	Office equipment CZK'm	Motor- vehicles CZK'm	Tangible assets in the course of construction CZK'm	Total CZK'm
<u>At 1 January 2006</u>				
Cost	61	5	2	68
Accumulated depreciation	(56)	(4)	-	(60)
Net book amount	5	1	2	8
<u>Year ended 31 December 2006</u>				
Opening net book amount	5	1	2	8
Additions	4	2	1	7
Disposals	(12)	(2)	-	(14)
Net change in accumulated depreciation	8	1	-	9
Closing net book amount	5	2	3	10
<u>At 31 December 2006</u>				
Cost	53	5	3	61
Accumulated depreciation	(48)	(3)	-	(51)
Net book amount	5	2	3	10
<u>Year ended 31 December 2007</u>				
Opening net book amount	5	2	3	10
Additions	8	1	8	17
Disposals	(10)	-	-	(10)
Net change in accumulated depreciation	4	(1)	-	3
Closing net book amount	7	2	11	20
<u>At 31 December 2007</u>				
Cost	51	6	11	68
Accumulated depreciation	(44)	(4)	-	(48)
Net book amount	7	2	11	20

21 OTHER ASSETS

	31 December 2007 <u>CZK'm</u>	31 December 2006 <u>CZK'm</u>
Insurance benefit receivable from EGAP	78	323
Insurance premium receivable from clients	-	110
Receivables - state subsidy	69	72
Prepayments and accrued income	32	27
Receivables from re invoicing of expense	59	30
Other receivables	5	53
	243	615
Remaining maturity:		
Current other assets	229	606
Non-current other assets	14	9

The Bank did not recognise any new insurance benefit receivable from EGAP in 2007 (2006: CZK 323 million). These receivables are also cashed as soon as all contractual obligations are met.

22 DUE TO BANKS

	31 December 2007 <u>CZK'm</u>	31 December 2006 <u>CZK'm</u>
<u>Current deposits received</u>		
- fixed interest rates	516	173
- variable interest rates	1,486	1,211
	2,002	1,384
<u>Borrowings</u>		
- fixed interest rates	3,909	3,101
- variable interest rates	-	2
	3,909	3,103
Total due to banks	5,911	4,487
Remaining maturity:		
Current	3,622	1,751
Non-current	2,289	2,736

23 DUE TO CUSTOMERS

Escrow accounts represent deposits received from customers as cash collateral for loans granted.

	31 December 2007 <u>CZK'm</u>	31 December 2006 <u>CZK'm</u>
<u>Current accounts</u>		
- fixed interest rates	413	490
- interest free deposits	<u>136</u>	<u>614</u>
	549	1,104
<u>Term deposits</u>		
- fixed interest rates	623	570
- variable interest rates	<u>54</u>	<u>1</u>
	677	571
<u>Escrow accounts</u>		
- variable interest rates	<u>744</u>	<u>247</u>
	744	247
<u>Other current liabilities</u>		
- fixed interest rates	3	1
- interest free liabilities	<u>12</u>	<u>10</u>
	15	11
Total due to customers	<u>1,985</u>	<u>1,933</u>
Remaining maturity:		
Current	1,248	1,735
Non-current	<u>737</u>	<u>198</u>

24 DEBT SECURITIES IN ISSUE

Currency	Issued	Maturity	type of rate	31 December 2007		31 December 2006	
				CZK'm	%	CZK'm	%
CZK	11 July 2000	11 July 2010	FIX	5,645	6.950	5,664	6.950
USD	24 May 2002	24 May 2009	FIX	6,519	5.750	7,503	5.750
USD	5 November 2003	5 November 2008	FIX	2,724	3.750	3,142	3.750
EUR	23 May 2007	23 May 2016	FLOAT	3,204	4,674	-	-
EUR	23 May 2007	23 May 2014	FLOAT	1,335	4,664	-	-
EUR	13 August 2007	13 August 2012	FIX	1,354	4,682	-	-
EUR	23 November 2007	23 November 2012	FIX	1,337	4,354	-	-
EUR	23 November 2007	23 November 2017	FIX	1,337	4,555	-	-
				23,455		16,309	
Current				2,724		-	
Non-current				20,731		16,309	

Unlisted bonds are totalling face value of EUR 50 million issued on 13.8.2007 (due date 13.8.2012). All other bonds are listed.

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

Bonds issued in 2002 with total face value of USD 350 million, in 2003 with total face value of USD 150 million and individual bonds issued in 2007 are listed at the Luxembourg Stock Exchange.

25 OTHER LIABILITIES

	Note	31 December 2007 CZK'm	31 December 2006 CZK'm
Insurance premium payable to EGAP		46	127
Provision for social expenses		2	3
Wages and social security		11	9
Deferred income		7	5
Accrued expenses		3	4
Due to shareholders	32	-	150
Miscellaneous payables		27	29
		96	327
Remaining maturity:			
Current other liabilities		90	323
Non-current other liabilities		6	4

25 OTHER LIABILITIES (continued)

Based on the Shareholders agreement dated 26 April 2006, a monetary contribution of CZK150 million was subscribed and subsequently paid by the shareholders. Due to a processing error by the Municipal court, the registered capital increase was not registered in the commercial register within the period provided by law. This caused a liability to shareholders in 2006 of CZK150 million for return of monetary contribution. Return of value of ineffectively subscribed shares and thus fulfilment of this liability to shareholders was executed on 15 February 2007.

26 DEFERRED INCOME TAXES

Deferred income taxes for 2007 (2006 at 24%) are calculated using an approved tax rate for subsequent years of:

2008	21%
2009	20%
2010 and further	19%

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

	<u>Note</u>	<u>2007</u> CZK'm	<u>2006</u> CZK'm
<u>At 1 January</u>		46	22
Deferred fee and interest income – change in amount		(4)	(3)
Deferred tax on accumulated tax losses		5	(11)
Tax non-deductible creation of allowances for losses on loans		(43)	43
Total income statement charge	12	(42)	29
Available-for-sale securities:			
- fair value remeasurement reported in revaluation reserve	28	1	-
Cash flow hedges:			
- fair value remeasurement		(25)	(5)
- change in transfer to net profit		<u>2</u>	<u>-</u>
<u>At 31 December</u>		<u>(18)</u>	<u>46</u>

26 DEFERRED INCOME TAXES (continued)

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

	31 December 2007	31 December 2006
	CZK'm	CZK'm
<u>Deferred income tax liabilities</u>		
Cash flow hedges	(28)	(5)
	(28)	(5)
<u>Deferred income tax assets</u>		
Deferred fee income	4	8
Available-for-sale securities	1	-
Deferred tax on accumulated losses	5	-
Tax non-deductible creation of allowances for losses on loans	-	43
	10	51
Net deferred income tax assets/(liabilities)	(18)	46

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

27 SHARE CAPITAL

Under Act No. 58, at least 2/3 of the Bank's shares must be owned by the Czech state. The state's share rights are executed by four ministries. The remaining shares must be owned by EGAP (Note 1).

31 December 2007 and 2006	Number of shares	Nominal value per share	Total nominal value	Share
	#	CZK'm	CZK'm	%
Czech state	350	1	350	
Czech state	100	10	1,000	
Czech state total*	450		1,350	73.0
EGAP	50	10	500	27.0
	500		1,850	100.0

* 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

28 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 shareholder's contribution.

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. Currently it has reached the legally required limit.

Revaluation reserve

Revaluation reserve on available-for-sale investments

	<u>Note</u>	<u>2007</u> CZK'm	<u>2006</u> CZK'm
<u>At 1 January</u>		-	(1)
Net gains / (losses) from changes in fair value		(6)	1
Deferred income taxes	26	1	-
<u>At 31 December</u>		<u>(5)</u>	<u>-</u>

Hedging reserve on cash flow hedges

	<u>Note</u>	<u>2007</u> CZK'm	<u>2006</u> CZK'm
<u>At 1 January</u>		15	-
Net gains from changes in fair value		122	20
Deferred income taxes	26	(25)	(5)
Amount charged to income statement from equity		(9)	0
Deferred income taxes	26	2	0
<u>At 31 December</u>		<u>105</u>	<u>15</u>

Export risk reserve

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

29 CONTINGENT LIABILITIES AND COMMITMENTS

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and connected accepted guarantees and collaterals are as follows:

	31 December 2007 <u>CZK'm</u>	31 December 2006 <u>CZK'm</u>
<u>Credit commitments</u>		
Non-payment guarantees *)	3,578	2,946
Irrevocable commitments	18,694	13,245
Guarantees from confirmed letter of credit	426	-
	<u>22,698</u>	<u>16,191</u>

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

	31 December 2007 <u>CZK'm</u>	31 December 2006 <u>CZK'm</u>
<u>Accepted guarantees</u>		
Payment guarantees	1,272	63
Non-payment guarantees *)	111	66
At 31 December	<u>1,383</u>	<u>129</u>
<u>Collateral accepted</u>		
Cash	340	471
	<u>340</u>	<u>471</u>
Insurance with state subsidy	40,854	31,073
Insurance without state subsidy	138	240
	<u>40,992</u>	<u>31,313</u>
Securities accepted in reverse repo transactions	<u>-</u>	<u>326</u>

The value of contingent assets (guarantees, collaterals and insurance accepted) is stated at its net realisable value, being the expected net present value of the foreclosure.

29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

	31 December 2007 <u>CZK'm</u>	31 December 2006 <u>CZK'm</u>
Within 1 year	<u>15</u>	<u>15</u>

30 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.

	Note	31 December 2007 <u>CZK'm</u>	31 December 2006 <u>CZK'm</u>
Cash and balances with central banks	13	7	371
Placements with other banks	15	<u>3,818</u>	<u>2,937</u>
		<u>3,825</u>	<u>3,308</u>

31 PROVISION FOR LONG TERM EMPLOYEE BENEFITS

	Note	2007 <u>CZK'm</u>	2006 <u>CZK'm</u>
<u>At 1 January</u>		-	-
Advance provision	11	5	-
<u>At 31 December</u>		<u>5</u>	<u>-</u>

32 RELATED-PARTY TRANSACTIONS

The Bank provides specialized services supporting export activities in accordance with the Act No. 58. This Act also determines the structure of shareholders; the Bank is fully controlled by the Czech state which owns 73% of the Bank's share capital directly and 27% of the share capital indirectly via EGAP which is fully owned by the Czech state.

The volumes of related-party transactions and outstanding balances with the state-controlled entities and other related parties identified according to criteria of IAS 24 at the balance sheet date and related expense and income for the year are as follows:

32 RELATED-PARTY TRANSACTIONS (continued)

State subsidy

	<u>2007</u>	<u>2006</u>
	CZK'm	CZK'm
<u>At 1 January</u>	72	54
Subsidy received	(245)	(271)
Increase in receivables to state budget	<u>242</u>	<u>289</u>
<u>At 31 December</u>	<u>69</u>	<u>72</u>
Income	<u>242</u>	<u>289</u>

Liabilities from share capital contribution which has not been registered

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		CZK'm	CZK'm
<u>At 1 January</u>		150	-
Due to shareholders	25	-	150
Return		<u>(150)</u>	<u>-</u>
<u>At 31 December</u>		<u>-</u>	<u>150</u>

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

	<u>Other</u>	<u>Other</u>
	receivables	liabilities
	CZK'm	CZK'm
<u>At 1 January 2006</u>	1,339	372
Increase in receivables/payables	72,210	8,910
Receivables/payables settled	<u>(71,546)</u>	<u>(8,156)</u>
<u>At 31 December 2006</u>	<u>2,003</u>	<u>1,126</u>
Other income/expense 2006	<u>356</u>	<u>24</u>
<u>At 1 January 2007</u>	2,003	1,126
Increase in receivables/payables	77,294	20,353
Receivables/payables settled	<u>(78,469)</u>	<u>(20,196)</u>
<u>At 31 December 2007</u>	<u>828</u>	<u>1,283</u>
Other income/expense 2007	<u>22</u>	<u>87</u>

32 RELATED-PARTY TRANSACTIONS (continued)

	31 December 2007		31 December 2006	
	Commitments and guarantees given	Collaterals and guarantees received	Commitments and guarantees given	Collaterals and guarantees received
	CZK'm	CZK'm	CZK'm	CZK'm
<u>At 1 January</u>	1,813	40,901	1,068	32,796
Issued	2,140	52,654	2,402	43,464
Expired	(1,601)	(40,361)	(1,657)	(35,359)
<u>At 31 December</u>	<u>2,352</u>	<u>53,194</u>	<u>1,813</u>	<u>40,901</u>
Fee income	<u>12</u>		<u>9</u>	

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.

Remuneration of Board of Directors and Supervisory Board

	31 December 2007	31 December 2006
	CZK'm	CZK'm
Short term employee benefits (financial and company benefits)	15	12
Remuneration and short term benefits of Supervisory Board members	<u>2</u>	<u>2</u>
	<u>17</u>	<u>14</u>

The top executive team comprises 5 members of the Board of Directors and 3 members of the Supervisory Board. The related parties' transactions are conducted within the standard business operations.

33 SUBSEQUENT EVENTS

There were no other 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 2007.

Date of preparation:
13 March 2008

Signed on behalf of the Board of Directors:

A handwritten signature in blue ink, appearing to be 'J. Tauber', written over a light blue circular stamp.

Josef Tauber
Chairman of the Board of Directors and General Manager

G Report on Relations between Controlling and Controlled Entities

Report on Relations between Controlling and Controlled Entities and on Relations between the Controlled Entity and other Entities Controlled by an Identical Controlling Entity

(hereinafter the “Related Entities”)

**pursuant to the provisions of Section 66a(9) of Act No. 513/1991 Coll.,
the Commercial Code, as amended
for the period between 1 January 2007 and 31 December 2007**

I. Company Identification

Business name: Czech Export Bank, a.s. (hereinafter the “Company”)

Registered office: Prague 1, Vodičkova 34/701, postal code 111 21

Identification number: 63078333

Tax identification number: CZ63078333

Companies Register: incorporated in the Companies Register administered by the Municipal Court in Prague, Section B, File No. 3042

The Company is governed in its specialised business activities by the provisions of Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support and on Amendments to Act No. 166/1993 Coll., governing the Supreme Audit Office, as amended (hereinafter only “Act No. 58/1995 Coll.”), which at the same time also determines the structure of its shareholders, i.e. that at least two thirds of its shares shall be in the ownership of the State, while the remaining part is held by the Export Guarantee and Insurance Corporation, a.s. (hereinafter the “EGAP”). The State exercises its shareholder rights through the Ministries referred to in Part II of this Report.

On the basis of the banking licence issued by the Czech National Bank, the Company’s sphere of business activity is defined as follows:

- a) Acceptance of deposits from the general public;
- b) Provision of credits;
- c) Payments system and clearing;
- d) Provision of guarantees;
- e) Opening of letters of credit;
- f) Collection of payments;

- g) Trading on its own account or on clients' account in foreign currencies and in gold to the extent of:
- Trading on its own account in pecuniary means denominated in foreign currencies;
 - Trading on its own account in negotiable securities issued by foreign governments;
 - Trading on its own account or on clients' account in the rights and obligations appraisable in money that derive from the above-mentioned foreign currencies;
 - Trading on its own account in foreign bonds;
- h) Investing in securities on its own account to the extent of:
- Negotiable securities issued by the Czech Republic, the National Property Fund, the Czech National Bank and foreign governments;
 - Investing in foreign bonds and mortgage bonds;
 - Investing in securities issued by legal entities with registered office in the territory of the Czech Republic;
- i) Provision of banking information;
- j) Provision of investment services including:
- Complementary investment services pursuant to Section 8(3)(d) of Act No. 591/1992 Coll., on Securities, as amended, consulting services with respect to capital structure, industrial strategy and related issues, as well as provision of advisory services and services with respect to mergers and acquisitions of companies;
- k) Activities that are directly related to the activities mentioned in the Bank's banking licence.

II. Description of Relationships between the Related Parties

Structure of shareholders as of 31 December 2007

1. The State	73% of Shares
Ministries exercising the shareholders rights for the State:	
Ministry of Finance	52 votes
Ministry of Industry and Trade	30 votes
Ministry of Foreign Affairs	12 votes
Ministry of Agriculture	6 votes
2. Export Guarantee and Insurance Corporation	27% of Shares

Registered capital CZK 1,850,000,000
(in words: one billion eight hundred and fifty million Czech crowns),

III. Commercial Relationships

Contracts entered into in the period from 1 January 2007 to 31 December 2007

- a) The Company did not enter into any commercial contracts with the **State** as the controlling entity in the course of the past financial year. The Company's relationships with the State do not go above and beyond either the level of relations common between shareholders and the company in which such shareholders exercise their rights, or the relationships as stipulated by Act No. 58/1995 Coll.
- b) **With Other Related Parties**

Export Guarantee and Insurance Corporation

77 contracts on insurance of export credit risk

ŠKODAEXPORT, a.s.

5 contracts on collateralised deposit account

4 contracts on current account

4 contracts on collateralised current account

2 contracts on the issue of guarantee bonds

1 contract on loan for the financing of production for export

1 contract on assignment of receivables

1 general agreement on assignment of receivables

1 contract on pledging of receivables

1 contract on collateralised issue of an irrevocable documentary letter of credit

1 tacit confirmation of an export letter of credit

TECHNOEXPORT (joint-stock company for foreign trade)

1 contract on the issue of guarantee bond

All of the above contracts or agreements involve commercial commitments. Contracts laying down such relationships have been entered into under arms-length business terms and conditions.

IV. Other Legal Acts Made in the Interest of the Related Parties

No other legal acts have been made in 2007 in the interest of the Related Parties.

V. Other Adopted Measures

In accordance with Act No. 58/1995 Coll., the Company provides state support for exports within the sphere business activities as defined in its banking licence (see Part I of this Report). Pursuant to Act No. 58/1995 Coll., the State shall reimburse the Company for any losses as described in the Act, which it may incur as a result of providing the supported financing. The State shall also issue a guarantee for the Company's commitments to the extent as laid down in Act No. 58/1995 Coll.

The State as the Controlling Entity did not take any measures as the Company's shareholder that would in any way cause any loss or injury to the Company in the past financial year. The Company's losses relating to the supported financing operations are subsidised in accordance with Act No. 58/1995 Coll., as mentioned above.

During the financial year, the Company did not adopt or implement any measures other than those mentioned above, whether of its own will or in the interest or at the initiative of any of the Other Related Parties.

VI. Performances Rendered

In 2007, insurance compensation in the amount of CZK 246.64 million was paid by EGAP in favour of the Company. In addition, insurance compensation in the amount of CZK 37.02 million was paid by EGAP to the Company, with the corresponding insurance compensation being refunded in full to EGAP following the subsequent repayment of the debt by the client.

Apart from the considerations referred to in the previous paragraph, no performances or considerations were rendered in 2007 under the concluded contracts, except for the common charges related to the provision of banking products, payments of insurance premiums and their cross-charging as well as the management of current and deposit accounts.

Pursuant to Act No. 58/1995 Coll., the State paid out subsidies covering losses from the operation of supported financing (see Part V. of this Report) in the total amount of CZK 242.3 million.

Given the ineffective subscription of shares in 2006, there was no increase in the Company's registered capital and the entire amount of CZK 150 million was refunded in full to the Ministry of Finance on 15 February 2007.

The volume of related-party transactions in 2007 and the outstanding balances with the state-controlled entities and other related parties as at 31 December 2007 and as at 31 December 2006 are shown in the Notes to the Company's Financial Statements for the year ending 31 December 2007, which forms a part of the Company's Annual Report for the year ending 31 December 2007.

VII. Litigations

The Company is currently not involved in any litigation against the State or any person controlled by the State.

VIII. Representation by the Board of Directors

The Board of Directors of the Company represents that the data stated in this Report are true and that all ascertainable data about the Company's Related Parties are duly mentioned in it. The Board of Directors of the Company represents that the Company did not incur any loss in the past financial year as a result of any of the above-mentioned relations and that the State did not use its influence in order to assert, as the controlling person, the adoption of any measure or conclusion of any contract under which a loss would be incurred in the past financial year.

In Prague on 13 March 2008



Ing. Josef Tauber
Chairman of the Board of Directors
and Chief Executive Officer



Ing. Miloslav Kubišta
Vice-Chairman of the Board of Directors
and Deputy Chief Executive Officer