



2010

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



ČESKÁ EXPORTNÍ BANKA
CZECH EXPORT BANK



Opening Statement



Dear Partners of Česká exportní banka,

2010 was marked by the subsiding of the global economic crisis and the gradual revitalisation of the economies of individual countries. The economy of the Czech Republic, whose performance to a great extent depends on the situation in neighbouring countries and trade with them, started to grow. Since the Czech Republic is an open economy that exports two thirds of its own production, there was a 19% year-on-year increase of its foreign trade turnover, which represented the highest values since its foundation.

Even during the economic crisis, Česká exportní banka, a.s. (hereinafter "ČEB" or the "Bank") fulfilled its role, which is to finance exports to countries with a higher territorial risk and to provide such financial support to local exporting companies, which is common in other developed countries worldwide. Exports not only generate profit for companies but also bring innovations, technical and scientific developments, and higher employment rates for exporting companies and their sub-suppliers. Czech companies can make the best use of the various forms of financial support when exporting to countries with a higher territorial risk and when exporting capital goods. The potential markets for these goods are predominantly countries outside the EU, traditional export destinations where these goods had buyers in the past and where they have a good reputation.

An important step in developing support for exports was ČEB's decision to strengthen its capital structure. In 2010, the second round of increasing the share capital to the current volume of CZK 4 billion took place.

This measure was positively reflected in ČEB's business activities. Thanks to the increase, the Bank signed new loan and guarantee contracts in the aggregate amount of CZK 44 billion, which is 75% greater than in 2009. During the year, ČEB provided exporting companies with funds in the aggregate amount of nearly CZK 30 billion as part of the draw-down of provided loans. There was also an increase of more than 30% in total assets, which amounted to CZK 64.8 billion as of 31 December 2010.

Another significant achievement, in addition to the good financial results, was ČEB's contribution to satisfying the demand for funding exports to countries which are considered highly promising with regard to their size and potential for sales of Czech goods. These predominantly include more developed countries outside the EU. Last year's operations were influenced mostly by the contract for funding the Adularya thermal power plant in Turkey, where ČEB participates not only in the construction itself but also in financing the machinery for the adjacent mining complex. Other significant transactions of the Bank in the past year also include the completion of the construction of the third and fourth sections of the nuclear power plant in Mochovce, the investment of Energo Pro in the energy sector in Turkey, the export of Sikorsky helicopter parts, and the construction of a commercial complex in Ryazan, Russia. ČEB thus significantly contributed to the gradual revitalisation of the Czech Republic's export capacity.

ČEB is aware of the current situation, which is marked by a dramatic change in the focus in respect of the exports of traditional Czech industries focused on production of capital goods, which cannot be placed on foreign markets without medium- or long-term financing. The offer of state supported financing is also aimed more and more at medium-sized and smaller Czech exporting companies.

The approximately two-year period of the financial crisis has clearly confirmed ČEB's irreplaceable role in the financing of Czech exports. The Bank proved its anti-crisis mission at a time when private banks were partially retreating from the market. Currently, private banks are gradually returning to the market and ČEB welcomes their return, also because it will be able to devote more attention to markets where other banks will find it difficult to offer their services.

I believe that thanks to the support provided by ČEB, Czech exporting industries will also be successful in 2011.



Ing. Tomáš Uvíra

INDEPENDENT AUDITOR'S REPORT To the Shareholders of Česká exportní banka, a.s.

Having its registered office at: Praha 1, Vodičkova 34 č.p. 701, 111 21
Identification number: 630 78 333

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 14 March 2011 on the financial statements which are included in this annual report on pages 46 to 89:

"We have audited the accompanying financial statements of Česká exportní banka, a.s., which comprise the statement of financial position as of 31 December 2010, the income statement, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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.

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 the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Česká exportní banka, a.s. as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of Česká exportní banka, a.s. for the year ended 31 December 2010 which is included in this annual report on pages 91 to 94. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Česká exportní banka, a.s. for the year ended 31 December 2010 contains material factual misstatements.

Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2010 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company is consistent, in all material respects, with the financial statements referred to above.

In Prague on 22 April 2011

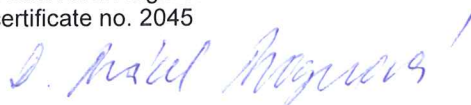
Audit firm:

Deloitte Audit s.r.o.
certificate no. 79



Statutory auditor:

Diana Rádl Rogerová
certificate no. 2045





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» Key Indicators

	Unit	2010	2009
Financial results			
Net interest income	CZK mil.	132	(158)
Net fee and commission income	CZK mil.	38	25
Net trading income including state subsidies	CZK mil.	558	783
Asset impairment	CZK mil.	(170)	(176)
Total operating costs	CZK mil.	(341)	(306)
Income tax	CZK mil.	(146)	(74)
Net profit	CZK mil.	71	94
Balance sheet			
Total assets	CZK mil.	64 795	49 733
Amounts due from customers	CZK mil.	55 647	37 529
Amounts due from banks	CZK mil.	4 139	5 538
Client deposits	CZK mil.	5 663	4 360
Bank deposits	CZK mil.	6 049	7 056
Issued bonds	CZK mil.	46 852	33 361
Total equity	CZK mil.	3 919	2 953
Ratios			
ROAE	%	1,64	2,97
ROAA	%	0,12	0,20
Capital adequacy (per ČNB)	%	54,24	41,37
Assets per one employee	CZK thousand	434 868	355 233
Administrative expenses per one employee	CZK thousand	(1 870)	(1 715)
Net profit per one employee	CZK thousand	476	674
Other information			
Average headcount	employees	144	134
Headcount (as of 31 December)	employees	149	140
Guarantees issued	CZK mil.	3 299	1 834
Loan commitments	CZK mil.	13 594	14 650
Rating – long-term payables			
Moody's	-	A1	A1
Standard & Poor's	-	A	A



Profile of the Bank



» 1. Profile of Česká exportní banka, a.s.

1.1. History and development of Česká exportní banka, a.s.

Česká exportní banka, a.s. (hereinafter also referred to as "ČEB" or the "Bank") is registered in the Commercial Register maintained by the Municipal Court in Prague, Section: B, File No. 3042.

The Bank is an issuer of securities under the Agreement on the Maintenance of Records Regarding the Issue of Securities in the Central Securities Record within the Central Securities Depository Prague, a.s. with its registered office at Prague 1, Rybná 14, Zip Code 110 05; Issuer's Registration No. 2033836.

Česká exportní banka, a.s. commenced its banking activities under a licence issued by the Czech National Bank on 6 February 1995. At present, ČEB acts under a banking licence issued by the Czech National Bank under Ref. No. 2003/3966/520, dated 19 September 2003, which became effective 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 effective on 2 October 2003. The awarded banking licence replaced the original licence, under which ČEB was allowed to act as a bank. Based on the Czech National Bank's decision of 16 December 2005, Ref. No. 2005/3982/530, which became effective on 10 January 2006, the Czech National Bank extended the scope of ČEB's business activities. As of 31 December 2010, ČEB 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 systems and clearing
- d) Issuing of guarantees
- e) Opening of letters of credit
- f) Collection services
- 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 funds 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 monetary rights and obligations derived 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 offices on the territory of the Czech Republic
- i) Provision of banking information
- j) Provision of consulting services with respect to capital structures, industrial strategies and related issues, as well as the provision of advisory services and services with respect to the merger and acquisition of companies
- k) Activities directly related to the activities mentioned in ČEB's banking licence.

In 2010, ČEB asked ČNB for permission to expand its activities by trading with foreign currencies on behalf of the Bank's clients. ČNB agreed with ČEB's request and its decision became effective on 25 January 2011.

1.2. Registered Office and Legal Form of the Issuer and Legal Regulations Governing the Issuer's Activities

Registered office:	Prague 1, Vodičkova 34/701, Zip Code: 111 21
Legal form:	Joint-stock company
Corporate ID:	63078333
Telephone:	+420 222 841 100
Fax:	+420 224 226 162
E-mail:	ceb@ceb.cz
Website:	www.ceb.cz

Main legal regulations governing the issuer's activities	
Act no. 21/1992 Coll.	On banks, as amended
Act no. 58/1995 Coll.	On insuring and financing exports with state support, as amended
Act no. 256/2004 Coll.	On undertaking on capital markets, as amended
Act no. 563/1991 Coll.	On accounting, as amended
Act no. 513/1991 Coll.,	Commercial Code, as amended
Act no. 93/2009 Coll.	On auditors, as amended
Act no. 284/2009 Coll.	On payments, as amended
Act no. 253/2008 Coll.	On anti-money laundering and financing terrorism, as amended
Prague Stock Exchange	Stock Exchange Rules

1.3. Disclosed Documents

ČEB's Articles of Association (in Czech) are publicly available and a paper version thereof can be inspected in the Bank's registered office.

The electronic version of the Bank's Articles of Association (in Czech) is publicly available on the website of the Commercial Court – Collection of Deeds at the following address:

http://www.justice.cz/xqw/xervlet/insl/index?sysinf.@typ=or&sysinf.@strana=searchResults&hledani.@typ=subjekt&hledani.format.typHledani=x*&hledani.podminka.subjekt=%e8esk%e1+exportn%ed+banka

On ČEB's website, ČEB's quarterly information is also publicly available within the Operation Reports section.

1.4. Other data on Česká exportní banka, a.s.

The Bank is not a member of any group.

Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, authorised the Bank to finance exports with state support in line with international rules (predominantly by the OECD Arrangement on Officially Supported Export Credits).

Under Article 8, paragraph 1, letter b) of Act No. 58/1995 on Insuring and Financing Exports with State Support, the state is held liable for the obligations of the export bank arising from payments of funds received by the export bank and for obligations arising from other export bank's operations on the financial markets.

No specific event that could have a material impact on the evaluation of ČEB's solvency has occurred since the last publication of the Annual Report of ČEB as an issuer of securities.

When providing export credits with a maturity period of at least two years ČEB complies with the rules for assessing the impacts the financed export projects may have on the environment of the export destination. ČEB also complies with the procedures set out in OECD Council Recommendation dated 12 June 2007 on the application of certain guidelines in the field of environment and officially supported export credits.

ČEB does not perform any environmental activities on its own.

In line with the amendment to Act No. 58/1995 Coll. on Insuring and Financing Exports with State Support, as amended by the Act No. 293/2009 Coll., in 2009 ČEB offered its clients expanded opportunities for financing development and/or production of goods and supply of services before export.

Representative Office of Česká exportní banka, a.s. abroad:

Česká exportní banka, a.s. has a representative office established in the Russian Federation. The agency is an independent office of the Bank and has no legal personality.

The representative office's activities are delineated by the statutes of the representative office as amended by the Central Bank of Russian Federation's Order No. RF 02-437 dated 7 October 1997.

Address: Masha Poryvayeva Street 7
107 078 Moscow
Russian Federation
Telephone, fax: + 7 (495) 604 90 30

1.5. Administrative, management and supervisory bodies of ČEB and related committees

General Meeting – the supreme bank body, decides by means of decrees. General assemblies are attended by the shareholders or by their representatives based on a power of attorney.

Supervisory Board – supervisory bank body, supervises the performance of the Board of Directors' activities and the performance of business activities of the Bank; grants permissions in line with the Articles of Association of Česká exportní banka, a.s.

Chairman	Mgr. Zdeněk Zajíček – Member since 5 August 2010 Chairman since 6 September 2010 Deputy Minister of Finance Letenská 15, 118 10 Prague 1 – Malá Strana Ing. Ivan Fuksa – Member from 20 February 2007 until 5 August 2010 Chairman from 29 February 2008 until 5 August 2010 Deputy Minister of Finance Letenská 15, 118 10 Prague 1 – Malá Strana Since 13 July 2010 Minister of Agriculture of the Czech Republic Těšnov 65/17, 117 05 – Prague 1
Vice-Chairman	Mgr. Luboš Vaněk – since 28 April 2009 Deputy Minister of Industry and Trade Since 1 September 2010 – Deputy Senior Director of Interdepartmental Agenda and State Enterprises Section Na Františku 32, 110 15 – Prague 1 – Staré Město
Members	Ing. Milan Hovorka – since 6 November 2010 Deputy Minister of Industry and Trade Politických vězňů 20, 112 49 – Prague 1 Ing. Milena Horčicová, CSc. – since 3 September 2009 Head of the Financial Policy Section of the Ministry of Finance Letenská 15, 118 10 Prague 1 – Malá Strana Ing. Oldřich Černoch, CSc. – since 3 September 2009 Deputy Minister of Agriculture Těšnov 17, 117 05 Prague 1 – Nové Město Ing. Tomáš Dub – since 6 September 2010 Deputy Minister of Foreign Affairs Loretánské náměstí 5, 125 10 Prague 1 – Hradčany Ing. Jaroslava Křížová – since 25 November 2010 Team manager – Export and Project Financing Department Česká exportní banka, a.s. Vodičkova 34, 111 21 Prague 1

Ing. Vladimír Šon – since 2 September 2010
Reporting, compliance officer
Česká exportní banka, a.s.
Vodičkova 34, 111 21 Prague 1

Petr Sklenář – since 26 February 2008
Treasury department – dealer
Česká exportní banka, a.s.
Vodičkova 34, 111 21 Prague 1

Mgr. Jana Adamcová – from 28 April 2009 until 5 November 2010
Advisor to the Deputy Minister of Industry and Trade
Na Františku 32, 110 15 – Prague 1 – Staré Město

Ing. Helena Bambasová – from 17 December 2009 until 5 August 2010
Deputy Minister of Foreign Affairs
Loretánské náměstí 5, 125 10 Prague 1 – Hradčany

Ing. Boris Kyselý, MBA – from 11 December 2007 until 2 September 2010
Manager for Bank Strategy of ČEB
Česká exportní banka, a.s.
Vodičkova 34, 111 21 Prague 1

Ing. Pavel Kašpar – from 16 May 2005 until 16 August 2010
Head of the Department of Banking Information System Operations
and Internal Administration
Česká exportní banka, a.s.
Vodičkova 34, 111 21 Prague 1

Information about members of the Supervisory Board

Mgr. Zdeněk Zajíček

After graduating from the Faculty of Law, Charles University in Prague, Zdeněk Zajíček worked in the state administration and as an attorney. From 1996 to 1998, he was a member of the Chamber of Deputies of the Parliament of the Czech Republic and member of the Constitution Committee, member of the Committee for Public Administration and Environment and member of the Mandate and Immunity Committee. Afterwards, he worked in a law firm. Between 1999 and 2002 Mr. Zajíček was Director of the Magistrate of the Capital of Prague. In the following three years, he worked as a lawyer. As of September 2006, he was the Deputy Minister of the Interior responsible for public administration, informatics, legislation and archiving. As of September 2009, Mr. Zajíček worked in the position of Deputy Minister of Justice responsible for projects. Currently he works as a Deputy Minister of Finance. He is a member of the Management Board of the Health Insurance Company of the Czech Ministry of the Interior, member of the Management Board of the ČEZ foundation and President of the civic association eGON ACADEMY, and a founding member of the association eStat.cz – EFFECTIVE STATE. Since 2006, he has been Chairman of the Supervisory Board of CEVRO Institut, o.p.s.

Ing. Ivan Fuksa

Ivan Fuksa is a graduate from the University of Transport and Communications in Žilina/Prague. After completing his studies, he worked for the Municipal Transport Company of Prague (1986-1988), the High School of the Industrial Arts in Příbram, and the Dubno Secondary School and Professional Training Centre (1991-1992). In 1992, he was elected Deputy Mayor of Příbram, and then served as Mayor of Příbram from 2002 to 2004. On 29 January 2007, he was appointed First Deputy Minister of Finance. As of 13 July 2010, he was appointed the Minister of Agriculture of the Czech Republic. He is a member of the administrative council of the Endowment Fund "Svatohorské schody a zvelebení okolí". From 1994 to 2002 he was member of the Board of Directors of Příbramská teplotní, a.s., which filed for bankruptcy in 1998. He was Chairman of the Supervisory Board of Exportní a garanční pojišťovna, a.s. until 29 May 2010. He was the Vice Chairman of the Supervisory Board ČEZ, a.s., and member of the Supervisory Board of Letiště Praha, a.s.

Mgr. Luboš Vaněk

Luboš Vaněk graduated from the Faculty of Physical Education and Sports of the Charles University in Prague. In the 90s, he was active in capital markets on behalf of a banking and investment fund. After 1997, he was a member of the Supervisory Body of the Office for Securities and later in the Commission for Securities, in the position of Head of the Department of Security Dealers and Brokers. He has a brokerage licence. From 1999 to 2002 he worked at the Czech National Property Fund as the Director of the Chairman's Office. Since 2003, he worked as the Executive Director of the Czech Social Security Administration, where he was responsible for implementing process management in the organisation including economic processes. On 1 February 2006, he was appointed Deputy Central Director and, since 1 August 2006, he has been entrusted with the management of the Czech Social Security Administration. Since 1 March 2007 he was the Deputy Minister of Industry and Trade; he managed the section for the transformation of subordinate organisations and state-owned enterprises. Since 1 September 2009 he was the Deputy Senior Director of the Intersectional Matters and State-owned Enterprises Department. He was a member of the Supervisory Board of the Sokolovská uhelná a.s. legal successor, and a member of the Supervisory Board of DIAMO, s.p. He has been the Vice-Chairman of the Supervisory Board in EGAP, a.s. since 2009.

Ing. Milan Hovorka

After graduating from the University of Economics in Prague, Department of International Trade, Milan Hovorka worked at the Federal Ministry of Foreign Trade. From 1990 to 1996 he was a member of the Permanent Mission of the Czech Republic to UN and other international organisations in Geneva. After his return, he worked as a Senior Manager of the Department of Multilateral Business Policy, Relations with the EU and ESVO at the Ministry of Industry and Trade of the Czech Republic. From 1998 to 2004, he worked for the Ministry of Foreign Affairs, participating in the Permanent Mission of the Czech Republic to the World Trade Organisation (WTO), and eventually as a Permanent Representative, Mission Leader and member of various elected bodies of the WTO, including the position of a Chairman of the Council for Trade in Goods. As of 2004 Mr. Hovorka worked as the Head of the Department of European Countries and UN member states at the Ministry of Industry and Trade of the Czech Republic. As of 1 September 2007, he became the Deputy Minister of Industry and Trade and is the Head of the Trade Section. He has been a member of the Supervisory Board of EGAP since 2010. Currently he is not a member of any bodies of any other companies.

Ing. Milena Horčicová, CSc.

Milena Horčicová graduated from the Prague University of Economics, specialising in Finance and Credit. She obtained an advanced degree of the Candidate of Economic Sciences in 1985. After completing her studies she started to work as a lecturer and later as a senior lecturer at the Department of Finance of the Prague University of Economics from 1976 to 1981. From 1982 to 1986 she was Chief Economist of the commercial section of INPRO Prague. Since 1987 she has been working at the Ministry of Finance, advancing through the positions of senior officer, Head of Dept., Deputy Section Head to her present position of the Head of the Financial Policy Section (since 1999). Since 1999 she has been a member and later became the Chairwoman of the Control Commission of the Czech Society for Economics. She is also a member of the Scientific Council of the Faculty of Finance and Accounting at the Prague University of Economics and a member of the editorial board of the Finance and Credit monthly. She is a member of the Supervisory Board of EGAP, a.s. In the past she was a member of the Supervisory Boards of ČEB and EGAP (1995-2006) and a member of the Board of the Support and Guarantee Fund for Agriculture and Forestry (1996-1998).

Ing. Oldřich Černoch, CSc.

Oldřich Černoch graduated from the Prague University of Economics, Faculty of Transport and Telecommunications and was awarded the advanced degree of the Candidate of Economic Sciences in 1993. He took various specialised management courses such as Gustav Käser Training International – Management I and II. After completing his studies he started to work as an officer in the Accounting Department of the West-Bohemian Telecommunications Headquarters in Plzeň. Starting in 1974 he worked as a senior expert and in 1977 became the Head of Labour Economics Dept. of the Main Telecommunications Headquarters in Prague. From 1992 to 2003 he was responsible for economics as the Deputy General Manager of the Czech Post, s.p. From December 2003 to May 2008 he was responsible for economics as Deputy General Manager of the State Intervention Fund for Agriculture. In July 2008 he became the Deputy General Manager of the Institute of Economics and Information in Agriculture. At present, he works in the position of Deputy Minister of Agriculture and is responsible for the Section of Economics and Administration. Since 2002, he has been a member of the Executive Board of UNICEF. In 2007 he was nominated a member of the governmental committee for transforming the Czech Post into a joint-stock company. He is a member of the EGAP's Supervisory Board.

Ing. Tomáš Dub

After graduating in 1992 from the University of Economics in Prague, Department of International Trade, Tomáš Dub worked for the government as an advisor to the First Deputy Minister of Economy. From 1994 to 2002 he was mayor of the 7th Prague Municipal District and from 2002 to 2006 he was a member of the Council of the Municipality of Prague, where he was the Chairman of the Foreign Committee and a member of the Legislative, Legal and Security Committee. From 2002 to 2010 he was a deputy of the Parliament of the Czech Republic, Chamber of Deputies, where he was a member of the Foreign Committee, Chairman of the Subcommittee for Presentation of the Czech Republic Abroad, a member of the Subcommittee for Aeronautics and Astronautics and a member of the Standing Commission for Banking between 2002 and 2006. Between 2006 and 2010 he was Vice Chairman of the Foreign Committee and a member of the Defence Committee from 2006 to 2010, he was also Head of the Permanent Delegation for the Parliament Assembly of NATO, where he worked in the Standing Commission, in the Political Committee and the Subcommittee for Transatlantic Economic Collaboration. Currently, he works as a Deputy Minister of Foreign Affairs. He is a member of EGAP's Supervisory Board.

Ing. Jaroslava Křížová

After graduating from high school, Jaroslava Křížová joined PZO Polytechna, where she worked as a technical support officer in the department for trading with countries of the Council for Mutual Economic Assistance for three years. After two years, she commenced her distance studies at the University of Economics, Prague, Faculty of Trade, Department of Foreign Trade (completed in 1984). In 1978 she began working in the state-owned enterprise IMEX a.s., where she worked for 15 years; the purpose of the enterprise was to minimise disproportions of the local market by exporting surplus goods and importing commodities in short supply. Here she first worked as a trader, later she became head of the department focusing on the countries of the Council for Mutual Economic Assistance and Yugoslavia. She was a member of the Supervisory Board for four years as the employee representative. Between 1996 and 1997 she worked as the Head of Logistics of SSI Schäfer. In August 1997 she joined ČEB as a loan manager and currently she is the head of one of the export finance teams of ČEB. In November 2010 she was elected a member of the Supervisory Board by the employees.

Ing. Vladimír Šon

Vladimír Šon graduated in 1976 from the Czech Technical University in Prague, Department of Constructions and Transport Structures, specialisation in railway structures. After completing his studies, he joined Czech Railways and worked gradually as a track maintenance supervisor, controller and railway transport engineer in the Kralupy nad Vltavou track section. In 1979 he made an intracompany transfer to the Railway Project Centre, where he worked as a leading planning engineer for 13 years. During this time, he expanded his knowledge thanks to postgraduate studies at the University of Transport and Communications in Žilina. In 1992 he started working in the state administration and was appointed the Director of the Office of the Minister of Industry and Trade. In 1999 he started working in ČEB, specialising in reporting. He also has been a compliance officer since 2006. In September 2010 he was elected a member of the Supervisory Board by the employees.

Petr Sklenář

Petr Sklenář finished his studies at secondary school in 1991. He took a three-month language course in the USA. From 1993 to 2001 he worked in the MSsKB Hospital as an economist for pharmacies. Since 2001 he has been active in the banking sector, first in Citibank, a.s. Praha as an administrator of syndicated loans, and then since 2003 in ČEB as a treasury dealer. He is not a member of any bodies in any other companies.

Mgr. Jana Adamcová

Jana Adamcová graduated from the Philosophical Faculty of Palacký University in Olomouc in 2002 with a specialisation in philosophy and German philology. From 1997 to 2002, she worked as an assistant to the Senator and Vice Chairman of the Committee for Foreign Affairs, Defence and Security of the Senate of the Czech Republic. She worked as an Account Manager in AMI Communications PR agency (2001-2002) and was active in the field of foreign trade, particularly with regard to issues related to export financing. In 2005, she became Director of Communications Strategy of the Ministry of Foreign Affairs; then from 2005 to 2007 she worked as Director of Foreign Representation at the same ministry. Since 2007 she has been working in the Ministry of Industry and Trade as the Director of the Department of Export Support and subsequently as an advisor to the Deputy Minister. She was a member of the EGAP's Supervisory Board until 5 November 2010.

Ing. Helena Bambasová

Graduate from the University of Economics in Prague with specialisation in Econometrics (1984). After completing her studies she worked as a researcher in the Business Research Institute. From 1991 to 1992 she worked in the position of Deputy Director of CERGE - Centre for Economic Research and Graduates Education at the Charles's University in Prague and Pittsburgh University in the USA. From 1992 to 1994 she worked in the position of Senior Director of the administration section of the Ministry of Foreign Affairs, and as Deputy Minister of Foreign Affairs from 1994 to 1997. From 1997 to 2001 she was extraordinary and plenipotentiary ambassador in the Netherlands, from 2001 to 2002 worked as Executive Director of NATO Summit, Ministry of Foreign Affairs, and from 2003 to 2004 in the position of Senior Director of the HR Section of MFA. From 2004 to 2006 she worked as Senior Director of the Bilateral Relations and Development Cooperation Section of MFA and since 2006 she has worked in the position of the Deputy Minister of Foreign Affairs, later becoming the First Deputy. Since 29 August 2010 she has been Czech Republic's ambassador in Hungary. Until 6 August 2010 she was a member of EGAP's Supervisory Body.

Ing. Boris Kyselý, MBA

Czech Technical University (ČVUT), Praha graduate with specialisation in physical engineering. From 1993 to 1995 he studied corporate finance and accounting at the University of Economics, Prague. He completed his MBA degree at the Prague International Business School in 2004. After graduating from ČVUT in 1978 he worked as an independent research and development officer in Let Kunovice, a.s. From 1992 he worked as Deputy Head of the Office of the Government of the Czech Republic and was responsible for economic activities and operations of the Office of the Government. In 1993 he started to work in the Property Office of the Ministry of Finance, first as Deputy Director and since 1996 as Director of the Property Office. In 1999 he joined ČEB as Deputy Manager of the Analysis Department. In 2003 became Director of the Analysis Department. He worked as Director for Bank Strategy, Marketing and Communication. He terminated employment with ČEB as of 30 September 2010.

Ing. Pavel Kašpar

A graduate from the Czech Technical University in Prague, Electro-technical Faculty. After completing his studies he worked for a short period as a senior engineer in Albico, s.r.o. and has been employed by ČEB since 1995. Currently he is Director of the Division of Banking Information System Operations and Internal Administration.

Board of Directors – manages the operations of the Bank, acts in its name, ensures the business management including accounting, and takes decisions related to all bank issues unless otherwise stipulated by the law or by regulations defined as competences of the General Meeting or the Supervisory Board. The Board of Directors decides by means of decrees, which may be in accordance with the Bank's regulations subject to the Supervisory Board's additional approval.

Chairman
(until 8 September 2010) Ing. Lubomír Pokorný, MBA – Member of the Board of Directors since 1 June 2008, Chairman from 1 January 2009 until 8 September 2010
From the perspective of the Executive Management,
Director General and Chief Executive Officer of ČEB until 8 September 2010

Vice-Chairman Ing. Michal Bakajsa – Member since 1 February 2009,
Vice-Chairman since 2 September 2010
From the perspective of the Executive Management, Deputy Director General
and Chief Credit Officer of ČEB, entrusted with the management of the Bank
since 9 September 2010

Ing. Miloslav Kubišta – from 26 April 2006 to 2 June 2008 and then a member,
and since 1 January 2009 Vice Chairman again
From the perspective of the Executive Management, Deputy Director General
and Chief Financial Officer of ČEB

Members Ing. Karel Tlustý, MBA – ince 26 April 2006
From the perspective of the Executive Management,
Deputy Director General and Chief Risk Officer of ČEB

Ing. Petr Goldmann – since 1 June 2008

From the perspective of the Executive Management, Deputy Director General and Head of the IT and Trade Administration of ČEB

Information about members of the Board of Directors

Ing. Lubomír Pokorný, MBA

Graduated from the VUT Technical University in Brno and Katz School of Business University of Pittsburgh. After completing his studies in strategy planning and corporate finance in the USA he worked in the position of Manager in worldwide consultancy companies McKinsey & Co., Egon Zehnder International, and Deloitte & Touche starting in 1993. In 1998 he was appointed General Manager of Unex Uničov and later joined – upon requirement of the IFC and the creditor banks consortium – the newly-formed Board of Directors of Nová Huť Ostrava as Financial Director, where he was responsible for the process of revitalisation and privatisation. Before joining ČEB's Board of Directors, he worked in the position of Deputy Chairman of the Board of Raiffeisen Bank Aval in Ukraine. Mr. Pokorný was President of the Alumni Club and a Board member of the CMC Business School for several years. He was employed with ČEB from 1 June 2008, at first in the position of Deputy Director General responsible for managing departments of the General Director Section. On 11 September 2008 he was elected Director General of the Bank. As of 8 September 2010 he resigned from his function as a member of the Board of Directors of ČEB and also from his function as the Director General of ČEB.

Ing. Michal Bakajsa

Graduated from the University of Economics, Prague, in the field of system engineering in 1989. Following graduation, he worked as an administrator of Sparta Praha. From 1992 to 1993 he was the Vice President for Economics of the Sparta Praha Sports Association. Between 1994 and 2001 he held various positions at Česká spořitelna, a.s. From October 2001 to July 2006 he worked at Dresdner Bank CZ/BAWAG Bank in the position of head of the team responsible for structured finance and syndicated loans. Since August 2006, he has worked as Head of the Export and Structured Trade Finance Department at CSOB a.s. He participated as a member of the supervisory boards of ECKG, a.s., Pegas DS, a.s. and Pegas, a.s. (1999-2001), Dresdner Bank CZ, a.s. (2003-2005) and of BAWAG Bank CZ, a.s. (2005-2006). Currently, he is not a member of any bodies of any other companies.

Ing. Miloslav Kubišta

Graduated from the University of Economics in Prague. From 1974 to 1978 he was employed in the Financial Department of ČKD DUKLA Praha, and from 1978 to 1991 he worked in state administration in the field of finance. Later, he pursued a career in private banking. From 1994 to 1995 he was employed with EGAP. He has worked in ČEB since 1995, and was appointed Deputy Director General responsible for the Financial Division in 1996. At present he is not a member of any bodies in any other companies.

Ing. Karel Tlustý, MBA

Graduated from the Czech Technical University in Prague, Sheffield Hallam University and Nottingham Trent University. After completing his studies he worked for a short time as a marketing manager. He has been in banking since 1992 – first with Poštovní banka, a.s. and later with Investiční a Poštovní banka, a.s. in financial market trading, managing currency positions and bank liquidity. From 1994 to 1995 he was employed with EGAP. He has worked with ČEB since 1995 and became Senior Director of the Risk Management Section in 1997. In May 2006 he was appointed Deputy Director General entrusted with the management of this section. He is a member of the Administrative Board of the Family Endowment Fund.

Ing. Petr Goldmann

Graduated from VSB University of Mining, Ostrava. After his studies he joined Královodvorské železářny (Královův Dvůr Ironworks) as economist. In 1991 he started to work in Komerční banka, a.s. in the position of a credit officer, and later worked as a department manager and Commercial Risk Manager. In 2000 he pursued his career in Konsolidační banka. In 2004, he became a member of its Board of Directors and the Senior Director at Česká konsolidační agentura (the successor of Konsolidační banka). He was a member of the supervisory boards in Ostacolor, Termizo, Škoda Holding, Konpo, Aero Vodochody, First Czech-Russian Bank, BH Capital and Explozia.

Audit Committee – set up by a decision of the General Meeting of ČEB, held on 10 December 2009 and effective as of 4 January 2010. The Audit Committee focuses mostly on the process of preparing the Bank's financial statements, evaluates the effectiveness of the internal controls of the Bank, the internal audit and/or risk management systems, monitors the procedure of obligatory audits of the financial statements, recommends the auditor, and sets up payment regulations of the Director of Internal Audit Section.

The composition of the Audit Committee in 2010 was as follows:

Ing. Bohumil Vaněk – Chairman, independent member of the Audit Committee until 23 November 2010
Ing. Zdeněk Grygar – Chairman, independent member of the Audit Committee since 23 November 2010
Ing. Milena Horčicová, CSc. – Member of the Audit Committee (member of the Supervisory Board of ČEB)
Mgr. Luboš Vaněk – Member of the Audit Committee since 23 November 2010
(member of the Supervisory Board of ČEB)
Mgr. Jana Adamcová – Member of the Audit Committee
(member of the Supervisory Board of ČEB) until 5 November 2010

Information about members of the Audit Committee

Ing. Bohumil Vaněk

Graduated from the Czech Technical University in Prague and the University of Pittsburgh. Until 1991 he worked in Czechoslovak Television as a Chief Engineer; later he worked in senior positions for international companies, ie as a Financial Manager in Kmart Europe (now Tesco) and the Financial and Administrative Director in Hiram Walker. Since 2004 he has been a member of the Chamber of Auditors in the Czech Republic.

Ing. Zdeněk Grygar

Graduated from the University of Economy, Prague, Faculty of Management, specialisation in Economic and Mathematical Calculations (1980). He has worked as an auditor since 1992, and holds a certificate of the Chamber of Auditors of the Czech Republic (no. 1029). From 1980 to 1992 he worked as a subject specialist for plan and budget control in economic and financial institutions at the Czech Ministry of Control; he became an advisor to the Minister in 1990. Between 1992 and 2002 he worked as an economic analyst and director of the Banking and Economic Concepts and Analyses in Banka Bohemia a.s. Upon the bank's entry into liquidation in 1994, he was a Senior Director of the Economic Division. From 2002 to 2005 he worked as a Deputy Liquidator of Agrobanka a.s. in liquidation. In 2007 he was elected to the Executive Committee of the Chamber of Auditors of the Czech Republic; he is the Chairman of the Audit Examination Committee and Examiner of Accounting within the insolvency administrator exams managed by the Ministry of Justice. In the past, Mr. Grygar worked as a member of the Supervisory Board of Ekoagrobanka a.s. Ústí nad Labem, in liquidation, and COOP banka a.s. Brno, in liquidation, until the termination of liquidation; both memberships arose following authorisation of the Czech National Bank. Currently, he works as a statutory auditor and focuses on the audits of administrative self-government areas, institutions of the Academy of Sciences of the Czech Republic, and subsidies from the EU for research and development.

Ing. Milena Horčicová, CSc. – see Information about members of the Supervisory Board

Mgr. Luboš Vaněk – see Information about members of the Supervisory Board

Mgr. Jana Adamcová – see Information about members of the Supervisory Board

Other decision-making bodies of ČEB

Within the scope of its activities, the Board of Directors sets up the following decision-making bodies:

Credit Committee – a permanent decision-making and advisory body of the Board of Directors for deciding on and evaluating all issues related to selected transactions and credit risk management, and the advisory body of the leading employees of ČEB. The Credit Committee is a part of the management and control system of the Bank.

Composition of the Credit Committee:

Ing. Karel Tlustý, MBA	Chairman of the Credit Committee, member of the Board of Directors and Deputy Director General of ČEB, Head of the Risk Management Division
Ing. Petr Goldmann	Member and Vice Chairman of the Credit Committee since 23 September 2010, Member of the Board of Directors and Deputy Director General of ČEB, Head of the IT and Trade Administration Division
Ing. Michal Bakajsa	Member of the Credit Committee, member of the Board of Directors and Deputy Director General of ČEB, Head of the Commercial Division
Ing. Petr Krupa	Member of the Credit Committee, Head of the Risk Management Department
Ing. Lubomír Pokorný, MBA	Vice Chairman of the Credit Committee until 22 September 2010, terminated membership as of that date, Chairman of the Board of Directors and Director General of ČEB until 8 September 2010
Ing. Petr Kolísko	Member of the Credit Committee until 30 November 2010, Head of the Export and Project Financing Department

Assets and Liabilities Management Commission (ALCO) – permanent decision-making and advisory body of the Board of Directors for deciding on and evaluating all issues related to assets and liabilities management and minimisation of market risks related to bank transactions and operations of ČEB on financial markets; and the advisory body of the other leading departments. ALCO is a part of the management and control system of the Bank.

Composition of ALCO:

Ing. Miloslav Kubišta	Chairman of ALCO, Vice Chairman of the Board of Directors and Deputy Director General of ČEB, Head of the Financial Division
Ing. Karel Tlustý, MBA	Vice Chairman of ALCO, Member of the Board of Directors and Deputy Director General of ČEB, Head of the Risk Management Department
Ing. Michal Bakajsa	Member of ALCO, Member of the Board of Directors and Deputy Director General of ČEB, Head of the Commercial Division
Ing. David Franta	Member of ALCO, Head of the Treasury Department
Mgr. René Hanyk	Member of ALCO, Head of the Banking Risk Management Department
Ing. Miloslav Dudek	Member of ALCO, Head of the International Relations and Fund-Raising Department
Ing. Milan Čížinský	Member of ALCO, Senior Manager of the International Relations and Fund-Raising Department

Information Technologies Development Commission (ITDC) – permanent decision-making and advisory body of the Board of Directors of ČEB dealing with issues in relation to ICT management. ITDC is a part of the management and control system of the Bank.

Composition of the Commission:

Ing. Petr Goldmann	Chairman of ITDC, member of the Board of Directors and Deputy Director General of ČEB, Head of the IT and Trade Administration Division
Ing. Igor Táborský	Vice Chairman of ITDC, Head of the Banking IS Development Department
Ing. Pavel Kašpar	Member of ITDC, Head of the Department of Banking IS Operations and Internal Administration
Ing. Petr Jindrák	Member of ITDC, Senior Manager of the Banking IS Development Department
Mgr. René Hanyk	Member of ITDC, Head of the Banking Risk Management Department
Ing. Boris Kyselý, MBA	Member of ITDC until 22 September 2010, Manager, Bank Strategy, Marketing and Communication
Ing. Miloslav Dudek	Member of ITDC until 22 September 2010, Head of the International Relations and Fund-Raising Department
Ing. Petr Kolísko	Member of ITDC until 30 November 2010, Head of the Export and Project Financing Department

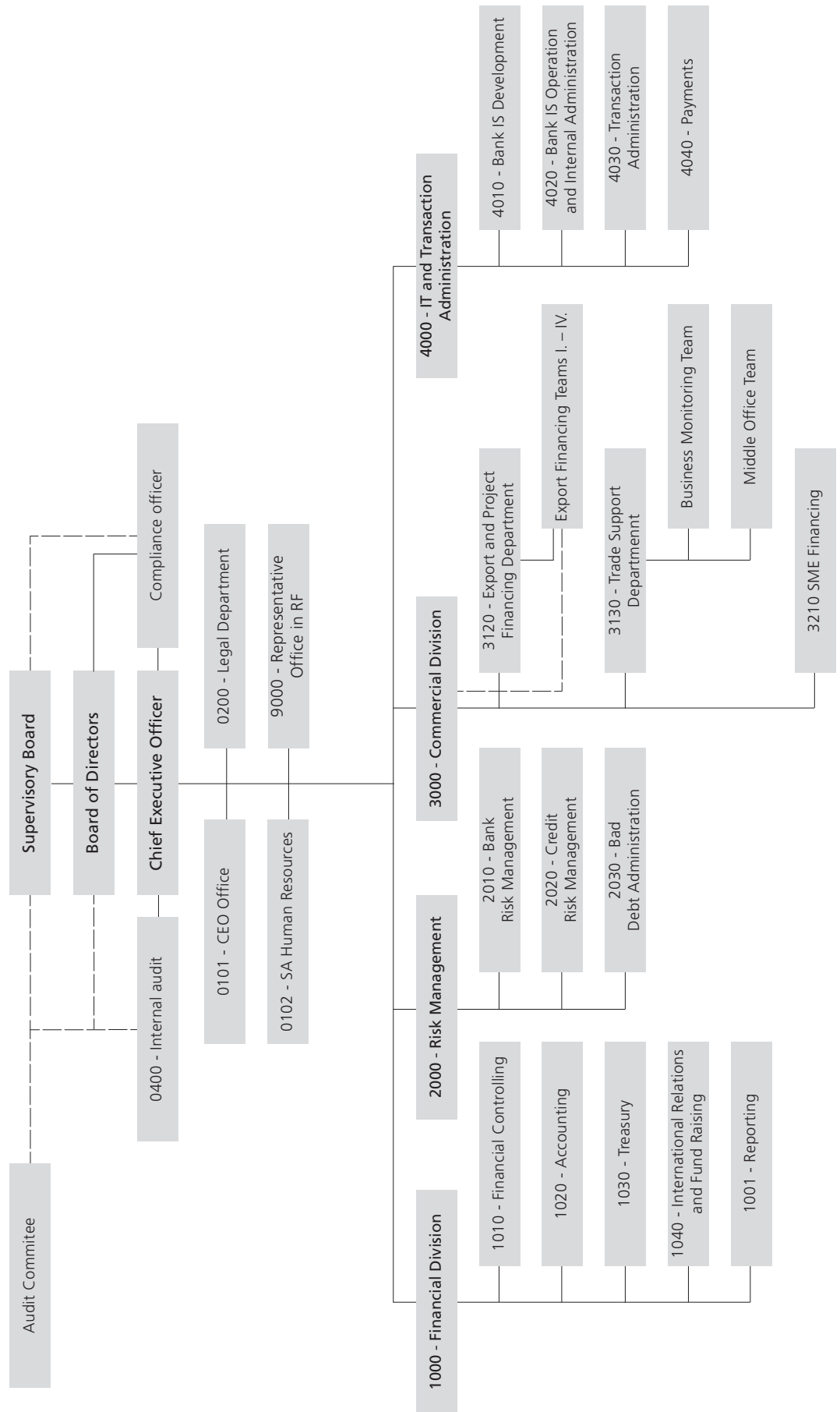
Ing. Jan Bukovský	Member of ITDC, ICT Security Inspector in the IT Operations and Internal Administration Department
Ing. Marcela Šrůtková	Member of ITDC, Member of the Accounting Department

Operational Risk Management Commission (ORCO) – permanent decision-making and advisory body of the Board of Directors. Makes decisions and evaluates operational risks including all areas related to information security management of ČEB; and advisory body of the leading employees of the Bank. ORCO is a part of the management and control system of the Bank.

Composition of the Commission:

Ing. Karel Tlustý, MBA	Chairman of ORCO, Member of the Board of Directors and Deputy Director General of ČEB, Head of the Risk Management Division
Ing. Petr Goldmann	Vice Chairman of ORCO, Member of the Board of Directors and Deputy Director General of ČEB, Head of the IT and Trade Administration Division
Mgr. René Hanyk	Member of ORCO, Head of the Banking Risk Management Department
Ing. Igor Táborský	Vice Chairman of ORCO, Head of the Banking IS Development Department
Ing. Pavel Kašpar	Member of ORCO, Head of the Department of Banking IS Operations and Internal Administration
Ing. Jan Bukovský	Member of ORCO, ICT Security Inspector in the IT Operations and Internal Administration Department
Ing. Marcela Šrůtková	Member of ORCO, Member of the Accounting Department

1.6. Organisational Structure of Česká exportní banka, a.s.



1.7. Declaration of No Conflict of Interests

The persons who are members of the administrative, management and supervisory bodies of the Bank or its committees declare that there is no conflict of interest between their obligations with respect to the Bank and their private interests or other obligations.



Report of the Board of Directors



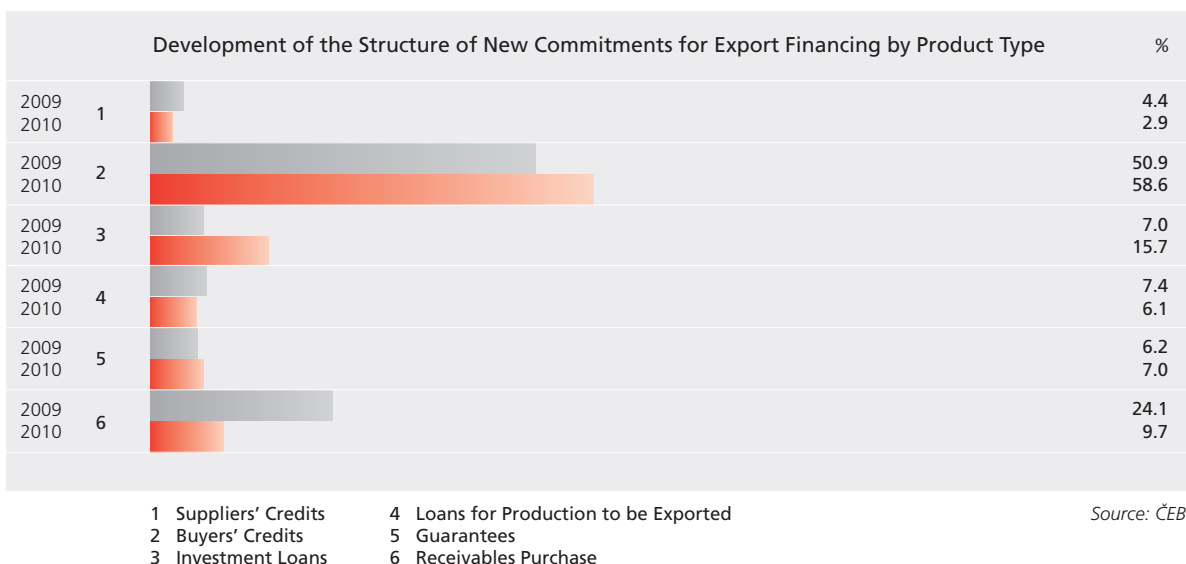
» 2. Report of the Board of Directors on the Bank's Business Activities and its Assets and Liabilities in 2010

2.1. Overview of the Bank's Business Activities in 2010

2.1.1. Business Activities

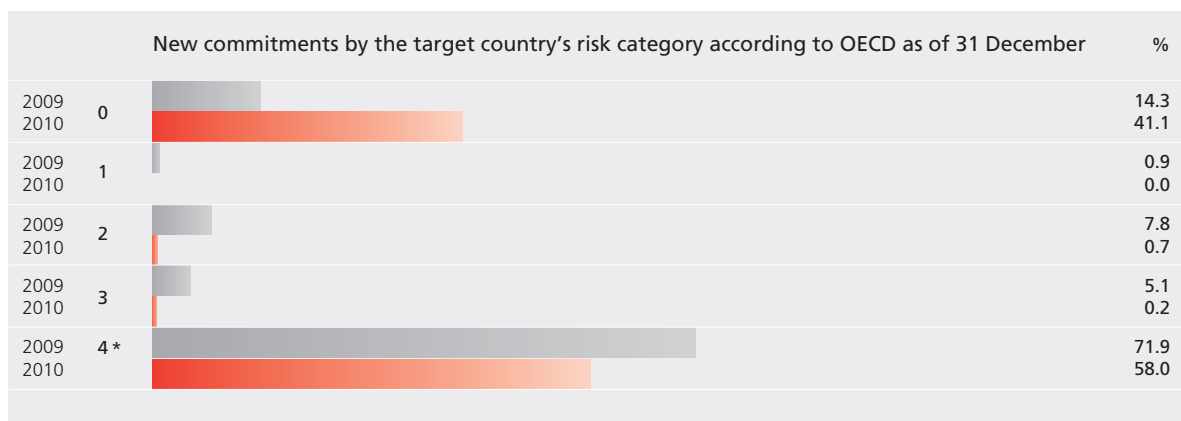
In 2010, the Bank ČEB reported very positive business results, following its growth potential established in 2009. The Bank finances exports by offering its products to countries reporting significant demand for Czech goods or to countries where financing of exports by commercial banks is not preferred for various reasons. The new commitments for granting loans and issuing guarantees totalled CZK 43,787 million, which is nearly by CZK 18.7 billion higher than the new commitments of CZK 25,109 million in 2009.

The development of the structure of new commitments shows an absolute increase in the volume of almost all products offered by the Bank. The volume of new commitments for buyers' credits in 2010 was more than double that of 2009 and the year-on-year growth in the volume of contracts for financing Czech investments abroad in 2010 was four times higher. The share of these two types of financing in terms of total new commitments in 2010 was more than 74%.



ČEB is expected to finance exports to countries whose territorial risk is high. The extent of this risk in the given country is classified by the OECD. The Czech Republic typically sells Czech exporters' products to its direct neighbours and to other EU countries. Of the overall number of Czech exports, the share of exports to those countries is 85%. The OECD considers these countries less risky.

In contrast to exports made by the Czech Republic, ČEB focuses principally on more risky countries. The Bank's financing of exports to countries whose territorial risk is high is illustrated in the structure of new commitments by risk exposure.

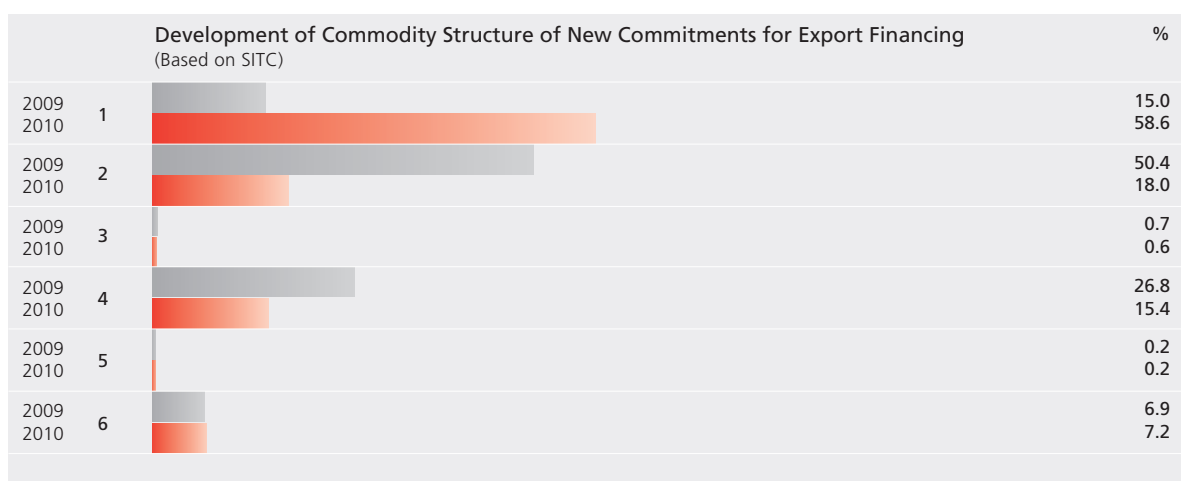


* and over

Source: ČEB

Note: The structure of risk classification based on OECD

The year-on-year comparison of the commodity structure of the new commitments shows that the prevailing share in export financing continues to be held by power-generating machinery and equipment, investment units for various industries including engineering, and road vehicles and other transport equipment. Their share in the total volume of new commitments continues to be the same year-on-year.

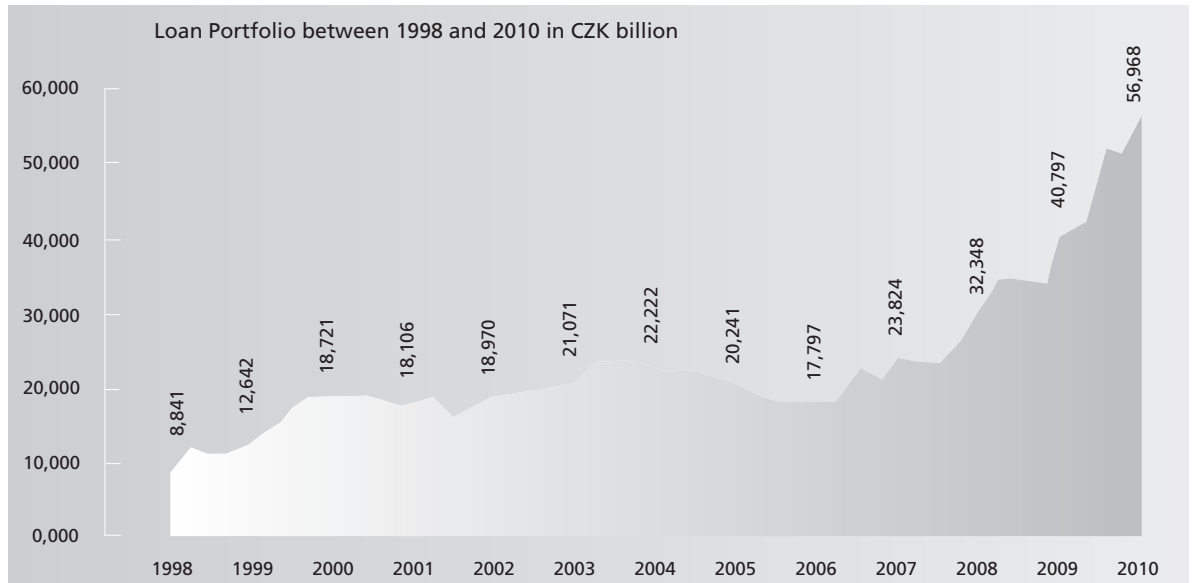


- 1 SITC 71 – Power Generating Machinery and Equipment
- 2 SITC 72 – Machinery and Equipment Specialised for Particular Industries
- 3 SITC 73 – Metal Working Machinery
- 4 SITC 78 and 79 – Road Vehicles and other Transportation Equipment
- 5 Other Engineering Products
- 6 Other Goods

Source: ČEB

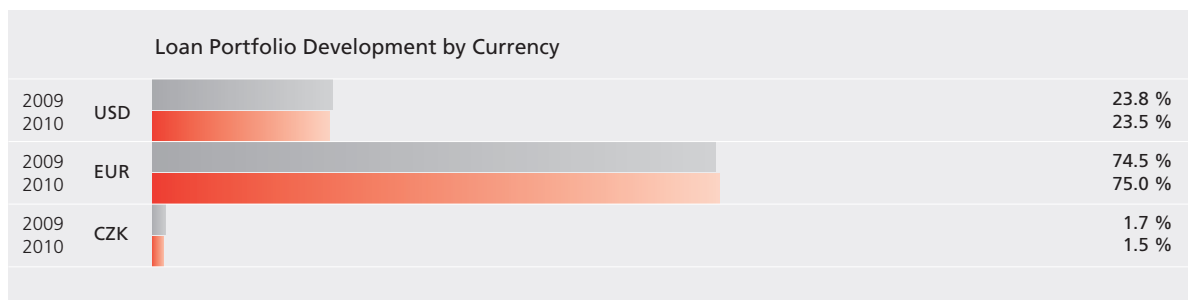
2.1.2. Development of the loan portfolio structure

The balance of the principal of the loans advanced and trade receivables purchased by the Bank as of 31 December 2010 denominated in CZK totalled CZK 56 968 million, which is a year-on-year increase of CZK 16 172 million, ie 39.6%, compared to 31 December 2009. The share of the balance of advanced loans and purchased receivables in the total assets was 87.9% as of 31 December 2010.



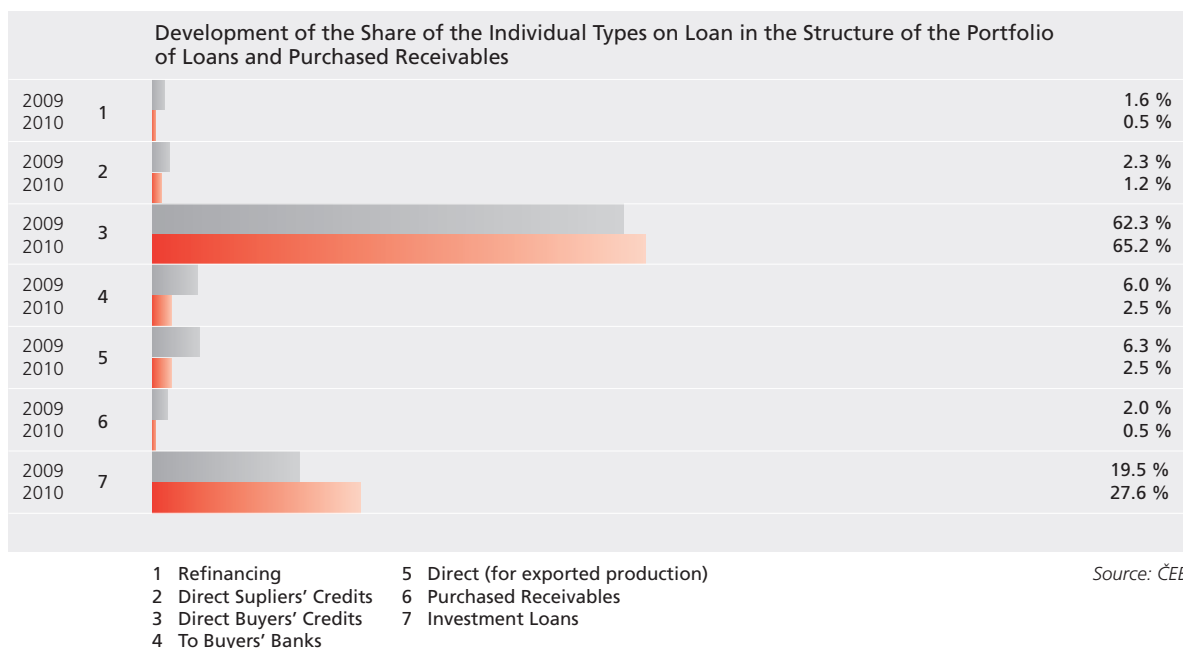
Source: ČEB

In general, ČEB provides export credits exclusively in EUR and USD. Both currencies, translated to CZK, represent over 98% of the total loan portfolio. The total balance of the principal denominated in CZK is therefore impacted by the development of the CZK exchange rate vis-a-vis the key contractual currencies stated above.

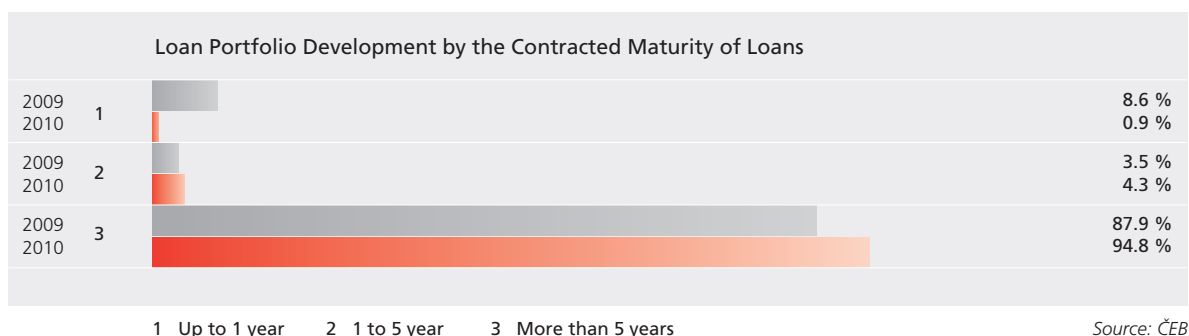


Source: ČEB

Thanks to the increase in direct buyer's credits and loans for financing Czech investments abroad, the overall share of the principal of provided loans and purchased receivables with respect to non-banking clients in the total portfolio grew from 84.2% to 96.8% year-on-year.



The structure of the principal of provided loans and purchased receivables by contracted maturity is dominated by loans whose maturity exceeds five years. Their share in the total balance of the principal of provided loans and purchased receivables grew by 6.9 p.p. to 94.8%.



2.1.3. Key Markets Where the Bank Operates

a) The Bank's Position in the Local Banking Sector

Compared to other banks in the Czech Republic, ČEB is considered a medium-sized bank with growing potential. Due to its financial results, ČEB's share in the aggregate assets of all banks in the Czech Republic grew from 1.18 % in 2009 to 1.40 % in 2010.

	2009			2010		
	Total Banks	ČEB	ČEB's Share	Total Banks	ČEB	ČEB's Share
Total Assets in CZK million	4 218 994	49 733	1.18%	4 333 288	60 567	1.40%

Source: ČEB a ČNB (banking statistics)

The Bank's position in the Czech banking sector is unique for the following reasons:

- The Bank's position under the government's strategy for providing financial support to exports as stipulated in Act No. 58/1995 Coll., on insuring and financing exports with state support, which gives rise to the Bank's specific forms of financing exclusively intended for exports;

- The supported financing of exports can be used only by a limited number of entities. These are only exporters domiciled in the Czech Republic and their domestic banks. The data available shows that in 2009 the number of exporters was almost 13,000, but the number of legal persons who are exporters and who are entitled to use ČEB's services is less than 2,000;
- The Czech Republic's commitment to provide financing for Czech exports in compliance with international rules applied by advanced countries providing mid- and long-term export credits in line with the OECD guidelines.

ČEB's position in its specific business is thus substantially greater compared to its actual share in the aggregate assets of the Czech banking sector.

Client Loans to Non-residents By purpose (in CZK million)	2009			2010		
	Total Banks	ČEB	ČEB's Share	Total Banks	ČEB	ČEB's Share
Balance of Loans and Receivables – Non-residents (all currencies)	149 100	33 926	22.8%	167 641	52 189	31.1%
In CZK	38 763	0	0.0%	34 457	119	0.3%
of which Total other loans	13 736	0	0.0%	8 425	119	1.4%
Of which Investment	5 726	0	0.0%	2 335	0	0.0%
Total current assets, seasonal costs, export, import	2 012	0	0.0%	2 167	119	5.5%
Total other loans (financial and purpose-driven)	3 896	0	0.0%	1 413	0	0.0%
Total trade receivables	214	0	0.0%	39	0	0.0%
In foreign currency	110 337	33 926	30.7%	133 184	52 070	39.1%
of which Total other loans	107 909	33 926	31.4%	131 394	52 070	39.6%
Of which Investment	26 033	7 267	27.9%	34 865	13 052	37.4%
Total current assets, seasonal costs, export, import	46 923	25 277	53.9%	68 963	38 335	55.6%
Total other loans (financial and purpose-driven)	24 563	566	2.3%	19 739	516	2.6%
Total trade receivables	2 080	816	39.2%	1 781	166	9.3%

Data source for banks in total: ARAD - ČNB Data Series System.

Data source for ČEB: CNB Reporting, "VST (ČNB) 1 – 12 – "Monthly Report of Clients Loans and Receivables from Clients".

b) Factors that Influenced the Bank's Business Activities and Financial Results in 2010

Throughout 2010, the Bank helped Czech exporters cope with the consequences of the global financial and economic crisis, which predominantly caused a decrease in demand on global markets and nervousness and distrust, the elimination of which was rather slow on financial and capital markets.

The key factors influencing the Bank's activities in 2009 were the impacts of the global financial and economic crisis, which started in 2008 but whose consequences were fully felt in the Czech Republic throughout 2009. In 2010, the Czech economy stabilised gradually. The Czech Republic managed to restart economic growth in 2010, principally thanks to its exports, which grew year-on-year by 17%.

The most significant impacts on ČEB's activities in 2010 included:

- Decrease in consumer demand in advanced countries and a significant increase in unemployment, which impacted demand for Czech goods abroad;
- A decline of investment activities in countries most severely hit by the crisis;
- Deterioration of the ability of firms and certain countries to meet their financial obligations, which resulted in lower ratings and worse risk classifications by OECD;
- Until mid-2010, a sharp decline in reference interest rates and income from governmental bonds (based on which the most frequently used CIRR fixed interest rate is derived) with impact on ČEB's interest income;
- High level of credit margin, which failed to push down the overall cost of funds regardless of the substantial decline in reference interest rates; and
- Slightly increasing interest rates, particularly long-term rates, from mid-2010.

ČEB primarily paid attention to the development of commodities, whose export is supported by the Bank's mid- and long-term financing. Compared to 2009, the exports of the groups of engineering commodities for investment purposes grew year-on-year, which was in line with the growth of the total Czech Republic's exports.

	Year-on-year Growth 2010/2009 in %
Total CR export	17.7 %
SITC 7 – Total machinery and transport equipment	19.2 %
SITC 71 – Power generating machinery and equipment	17.6 %
SITC 72 – Machinery for particular industries	18.1 %

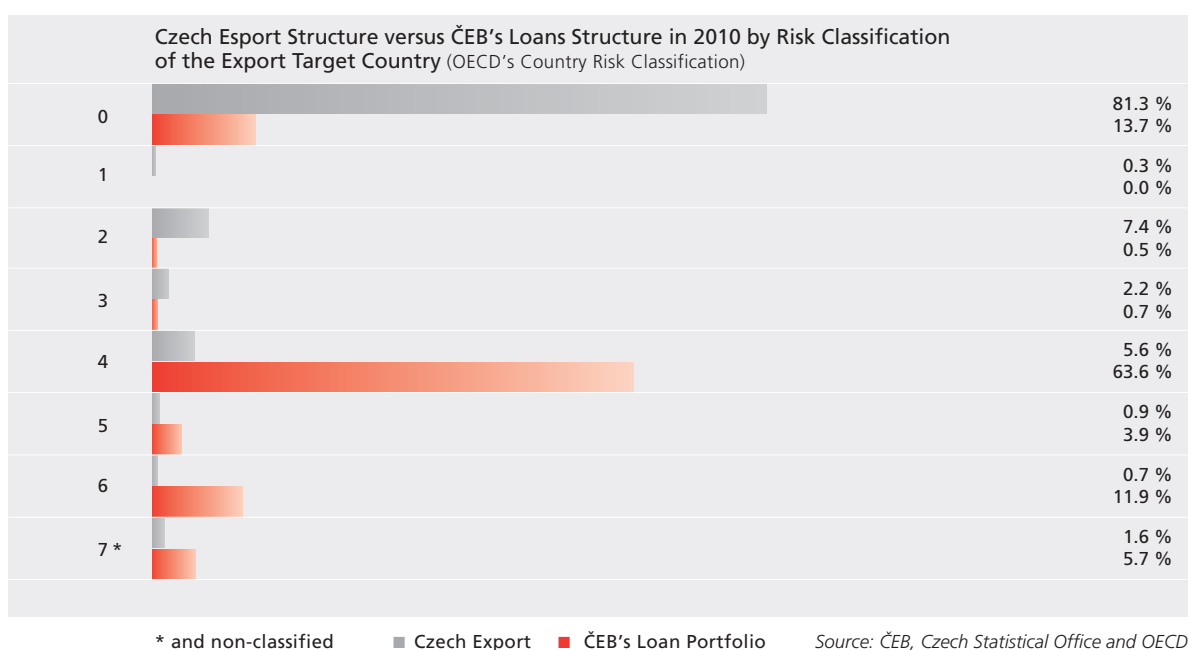
Source: The Czech Statistical Office

To fulfil its goals, it is important for ČEB to satisfy demand for financing Czech exports with respect to target countries or groups of countries to which Czech goods are exported. In 2010, the Bank recorded an absolute increase in exports to all groups of the countries it is monitoring: while the share of Czech exports to advanced countries declined, the share of exports to countries where ČEB fulfils its goals increased.

	Czech exports in CZK billion		Share in Czech export	
	2009	2010	2009	2010
Countries neighbouring with ČR	1 104	1 297	52.8%	51.5%
EU 15 countries	1 399	1 610	65.0%	63.9%
EU 27 countries	1 812	2 112	84.7%	83.9%
Commonwealth of Independent States	75	101	3.5%	4.0%
Transition European economies	18	20	0.9%	0.8%
Developing countries	92	101	4.3%	4.0%
Other (centrally managed economies)	17	25	0.8%	1.0%
Other advanced market-driven economies	77	103	3.6%	4.1%

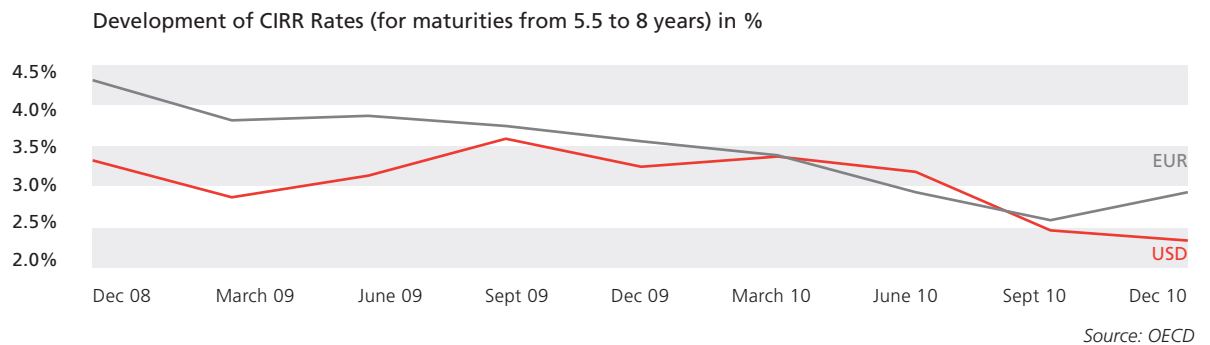
Source: The Czech Statistical Office

The global financial and economic crisis resulted in certain countries having difficulties in meeting their financial obligations. The risk classification of countries published by OECD continues to be essential for ČEB's business activities. The structure of the loan portfolio shows how ČEB meets its mission in financing export in countries whose territorial risk is medium or high, which is not the key target group of countries for the commercial banks.

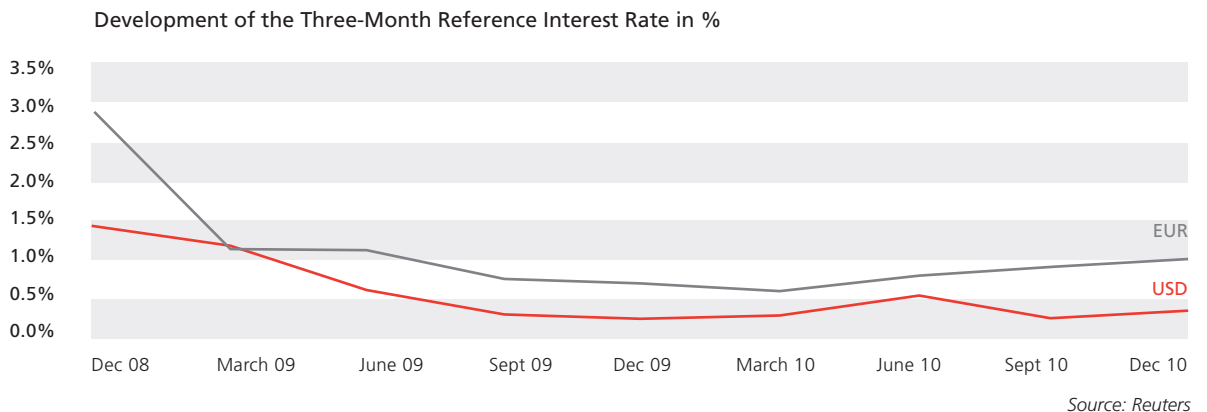


ČEB raised funds for its activities on the financial and capital markets, which is why the development in this area, marked by the financial and economic downfall, was important for ČEB. The development on financial and capital markets was gradually reflected in the increased margins of the bonds issued by ČEB. Changes in the structure of funds were necessary to decrease the cost of funds, which finally allowed ČEB to minimise the overall costs.

Nevertheless, the development on the financial and capital markets in 2010 had to be reflected in the interest rates of the supported loans advanced by ČEB to Czech exporters under the international rules for providing mid- and long-term export credits formulated in OECD Consensus. For these loans, ČEB uses a fixed interest rate based on CIRR, which is promulgated monthly by the OECD in Paris. The share of loans with a fixed interest rate has permanently been significant and represented 83.2% as of 31 December 2010. (In 2009, the share of loans with a fixed interest rate was 80.2 %). To offset declining CIRR interest rates in 2010, ČEB used a mark up to eliminate the growing costs of funds used for its business activities.



Loans provided with a floating interest rate based on money market rates nearly represent a fifth of the total volume of advanced loans and purchased receivables. Money market rates reported an exceptionally low level in 2010. Thus, ČEB applied a higher mark up also to the floating rates of its advanced loans to cover costs of newly raised funds in 2010.



2.1.4. Expansion of ČEB's Activities

In 2010, ČEB focused on the SME segment, increasing its activities to support this segment and to eliminate the most significant effects of the financial and economic crisis felt by the SME's.

The national anti-crisis plan included measures resulting in the introduction of new programmes for SMEs, which represent an alternative to the standard financing supported by governmental subsidies. Consequently, new distribution channels for fast and effective financing of the SME segment were created.

As many as 150 Czech, usually small, exporters with an average annual volume of purchased receivables of approximately CZK 18 million used these new distribution channels. Non-EU buyers represented only about 10% of the receivables. The group of most frequently exported goods included market products and semi-finished products.

SME's share in ČEB's activities in mill. CZK	Volume of new commitments		Loan portfolio		New drawings	
	2009	2010	2009	2010	2009	2010
ČEB total	25 109	43 787	40 797	56 968	20 657	29 636
of which SME's	2 130	2 728	1 268	2 074	873	2 193
SME's share in %	8.5%	6.2%	3.1%	3.6%	4.2%	7.4%

Source: ČEB

2.1.5. Financial Results, Business Results, Assets and Liabilities

a) Assets and Liabilities

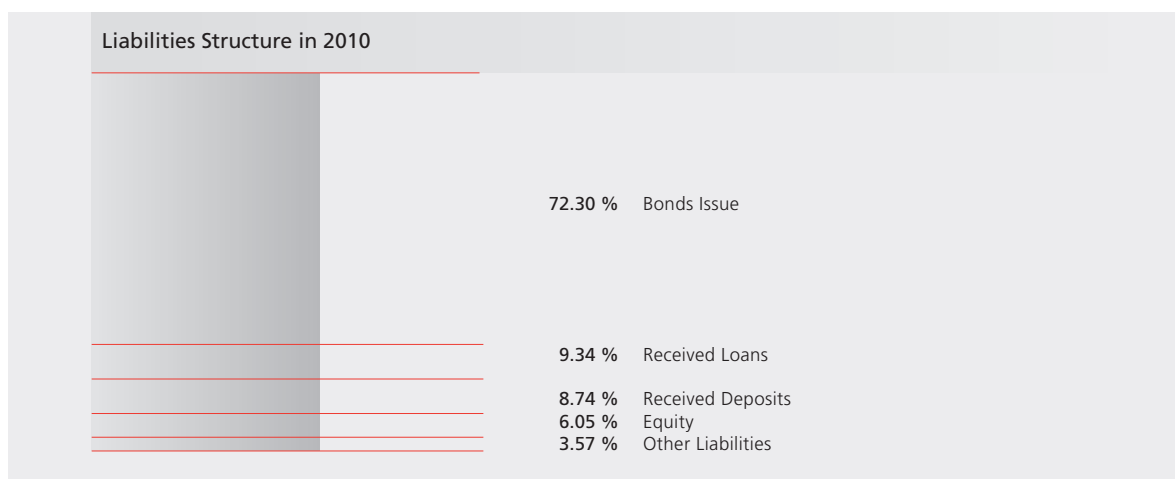
ČEB's total assets were CZK 64,795 million in 2010, ie funds made available grew year-on-year by 30.3%. The balance sheet structure is stable in the long term. Its items are derived from the planned and estimated development of transactions recognised in assets to which liabilities are adjusted.

Funding

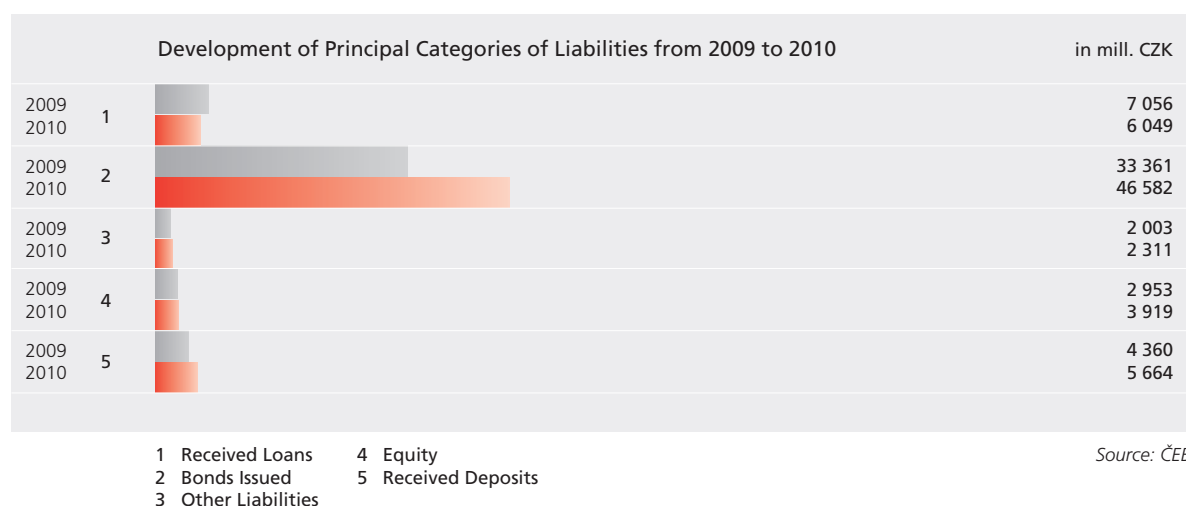
ČEB predominantly funds its activities through debt transactions mainly with financial institutions and non-banking entities, which together represent over 94% of the total volume of funds. The key source of funding is the issue of bonds denominated in foreign currencies and Czech crowns whose volume was CZK 33,361 million at the end of 2010 and covered approximately 82% of the loan portfolio. In 2010, the Bank continued to use its Euro Medium Term Note (EMTN) programme for bonds issue, which helped to increase borrowing efficiency even in the period of financial crisis. The Bank increased its funding base by deposits and repurchase transactions as well as long-term borrowings from credit institutions. At the end of 2010, the funds raised from those sources amounted to CZK 7,056 million. Deposits received from clients amounted to approximately CZK 4,360 million and played a secondary role in the Bank's funding.

The reported total volume of the Bank's capital is CZK 3,919 million, after in 2010 the Bank's share capital was increased by CZK 1,050 mil. Any gains and losses from the revaluation of liabilities arising from interest rate swaps used by ČEB to manage its interest rate risk are recognised as part of equity under IFRS. Profit after tax (ie the income tax payable and deferred taxation) amounted to CZK 71.0 million.

The structure of liabilities is analysed in the following chart:



Liabilities In mill. CZK	Actuals 31 Dec 2009	Actuals 31 Dec 2010	Year-on-Year Index
	Column 1	Column 2	Column 2/ Column 1*100
Financial payables from trading	20	61	305.00
Financial liabilities at amortised cost	44 955	58 690	130.55
<i>Of which: Bank loans</i>	<i>7 056</i>	<i>6 049</i>	<i>85.73</i>
<i>Payables to clients</i>	<i>4 360</i>	<i>5 663</i>	<i>129.89</i>
<i>Payables not classified by sector</i>	<i>178</i>	<i>125</i>	<i>70.22</i>
<i>Payables arising from debt securities issued</i>	<i>33 361</i>	<i>46 852</i>	<i>140.44</i>
Hedging derivatives with negative fair value	1 558	2 008	128.88
Other payables	162	50	30.86
Provisions for liabilities	17	3	17.65
Current tax payable	68	64	94.12
Total liabilities	46 780	60 876	130.13
Share capital	2 950	4 000	135.59
Revaluation gains or losses	(1 032)	(1 187)	115.02
Reserve funds	400	494	123.50
Other special purpose funds from profit	541	541	100.00
Retained earnings	94	71	75.53
Total equity	2 953	3 919	132.71
Total equity and liabilities	49 733	64 795	130.29

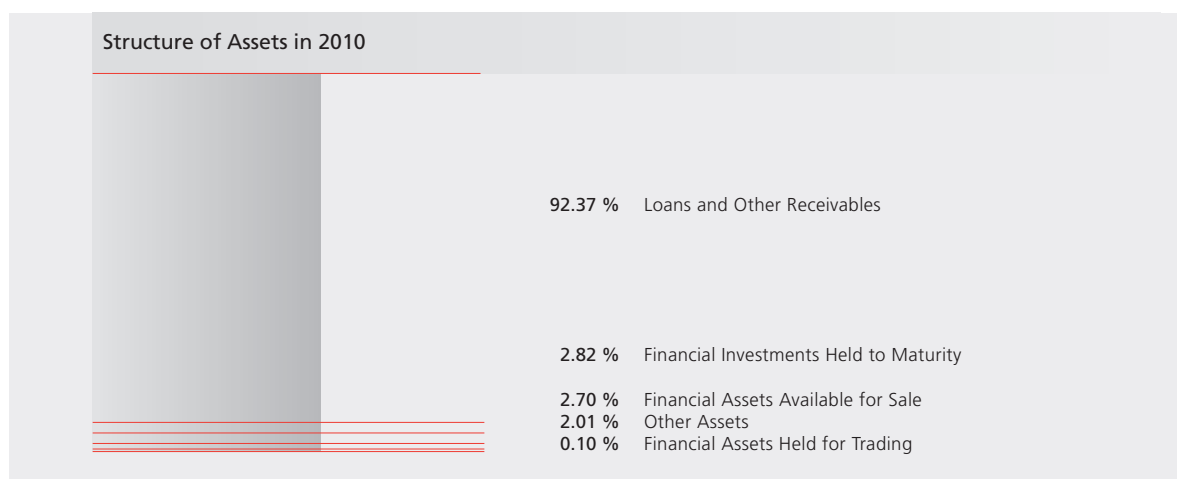


Use of Funds

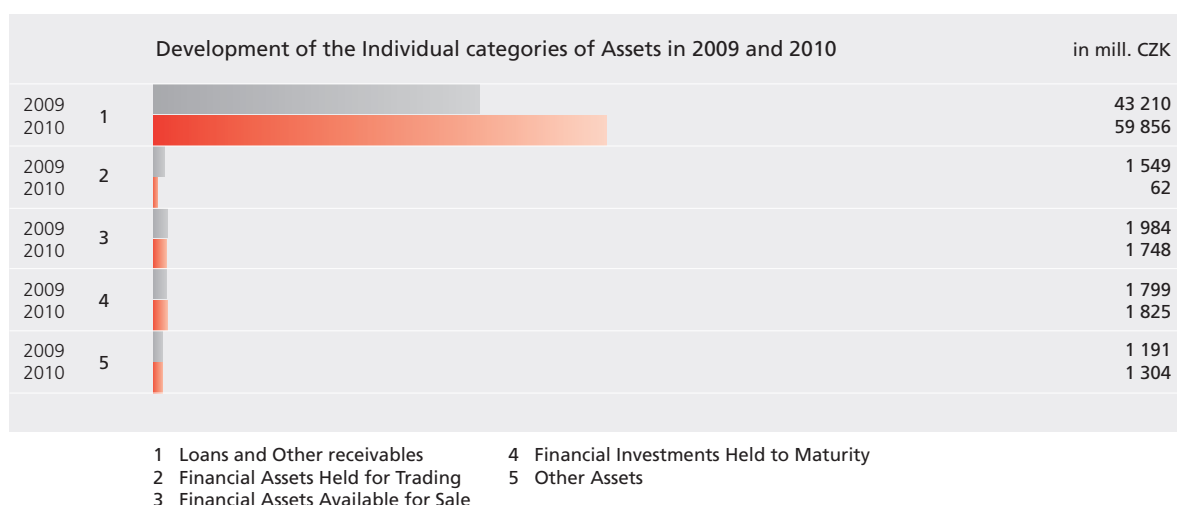
The greatest part of the assets is receivables arising from loans. Their share in the total assets increased during the year to 89.5%. As a result of the successful realisation of the Bank's business strategy, the loan portfolio as reported in the balance sheet increased y-o-y by 42.6 % to CZK 57,960 million. Long-term loans provided to non-bank clients saw the most significant increase. Receivables arising from loans provided to financial institutions slightly decreased as assumed; all significant loans in terms of volume are being repaid.

Temporarily available funds that were not used for loans and funds from the equity are invested on the financial market in interbank transactions including reverse repurchase transactions with the central bank. During 2010, ČEB continued to prefer investing in high value and liquid Czech and foreign securities. At the end of the reporting period, such investments amounted to CZK 3,573 million. In order to obtain flexible funds to cover its needs, ČEB effected repurchase transactions with selected Czech banks in 2010 from which it obtained funds in exchange for the pledge of securities.

The structure of assets remains stable, as documented by the chart below.



Assets in mill. CZK	Actuals	Actuals	Year-on-Year Index
	31 Dec 2009	31 Dec 2010	
	Column 1	Column 2	Column 2/ Column 1*100
Cash and deposits with central banks	378	642	169.84
Financial assets held for trading	1 549	62	4.00
Financial assets available for sale	1 984	1 748	88.10
Loans and other receivables	43 210	59 856	138.52
<i>Of which: receivables from loans</i>	<i>40 637</i>	<i>57 960</i>	<i>142.63</i>
<i> Other receivables</i>	<i>2 573</i>	<i>1 896</i>	<i>73.69</i>
Financial investments held to maturity	1 799	1 825	101.45
Of which: pledged assets	1 324	1 254	94.71
Positive value hedging derivatives	104	81	77.88
Tangible fixed assets	20	39	195.00
Intangible fixed assets	25	78	312.00
Other assets	368	133	36.14
Due tax receivable	296	331	111.82
Total assets	49 733	64 795	130.29



b) Generation of Profit

In 2010, ČEB generated a gross profit of CZK 217 million. After deducting the preliminary due income tax of CZK 146 million, the net profit amounted to CZK 71 million.

In its business activities in 2010, the Bank reported interest income of CZK 2,887 million, ie a year-on-year increase of 44%. The predominant part of the interest income (92.2%) represents the interest on loans and other receivables, specifically on loans provided to non-bank clients, which amounted to CZK 2,592 million. The Bank obtains the funds necessary for its business activities from financial and capital markets. In 2010, the costs of such funds amounted to CZK 2,755 million after a year-on-year increase of 27%. This development resulted from the increase in the volume of obtained funds and from the calmer situation on financial and capital markets in 2010.

Costs of funds predominantly include costs of interest on issued securities in the amount of CZK 1,404 million. The risk of interest rate fluctuations in respect of the funds obtained on capital markets is mitigated by hedging interest derivatives, which reported a loss of CZK 1,134 million in 2010 due to the level of interest rates. The net interest expense amounted to CZK 132 million in 2010.

Another significant component of the profit is the operating income, which totalled CZK 558 million including a claim for the subsidy intended for financing exports with state support from the government budget of CZK 492 million. In addition, the operating income includes profits from financial assets and liabilities held for trading that predominantly include profits from foreign exchange derivatives of CZK 370 million. Foreign exchange gains/losses from foreign currency transactions, including gains/losses from foreign currency translations, client conversions and spot transactions reduced the generated operating income by CZK 313 million.

ČEB's operating costs totalled CZK 341 million, including administration costs of CZK 279 million, depreciation and amortisation of tangible and intangible fixed assets of CZK 17 million and costs of the administration of troubled assets of CZK 59 million.

The loss reported from financing exports with state support is settled from the government budget in compliance with the provisions of Act No. 58/1995 Coll. Pursuant to the act, the loss is predominantly composed of differences between interest income from loans to bank and non-bank entities that are provided under terms and conditions that are common on international markets for officially supported export credits and costs incurred in raising funds on the financial market together with costs of provisions against troubled loan receivables. In 2010, ČEB made a claim for the subsidy amounting to CZK 492 million.

Profit in mill. CZK	Actuals	Actuals	Year-on-Year
	31 Dec 2009	31 Dec 2010	Index
	Column 1	Column 2	Column 2/ Column 1*100
Net interest income	(158)	132	xx
Net fee and commission income	25	38	152.00
Operating income	783	558	71.26
Of which: state subsidies	696	492	70.69
Operating expenses	(306)	(341)	111.44
Loan impairment losses	(176)	(170)	96.59
Profit before tax	168	217	129.17
Income tax	(74)	(146)	197.30
Net profit for the period	94	71	75.53

2.2. Information on the Anticipated Financial Situation in 2011

The Bank anticipates that its financial activities will be impacted by a number of both internal and external factors. With respect to external conditions that will impact ČEB's activities in 2011, the following factors need to be taken into account in implementing ČEB's business policy.

- In its outlook for 2011 ČEB expects that, in addition to fixed investments, the overall growth in Czech exports will be the key driver to economic growth in 2011 (the Ministry of Finance predicts 2.2% growth in 2011). The demand for goods outside-EU 27 countries and advanced non-EU countries will continue to grow.
- The effects of the global financial and economic crisis that the global economy faced in the last two years will gradually fade out. For ČEB it is important that the growth of Czech exports to non-EU countries is substantially faster than to EU countries and thus the demand for Czech goods grows in these non-EU countries, whose territorial risk is generally higher. ČEB is ready to meet this demand in 2011.
- ČEB will create conditions for further diversifying its financing of exports in the target countries where financed goods will be exported in 2011, focusing more on countries outside of the Commonwealth of Independent States. The goal will be to gradually decrease the CIS share in the total loan portfolio. Yet, the share of these countries will continue to prevail in the mid-term.
- The effects of global imbalance will continue to exist in 2011. ČEB expects, however, that mistrust on financial and capital markets will slowly diminish and, consequently, the costs of funds to be acquired in 2011 by ČEB will decrease further.
- Given the low level of debt, the reforms launched by the government, and the continuing problems in the Euro-zone, ČEB expects the CZK/EUR exchange rate to strengthen year-on-year by 3%. The CZK/USD exchange rate will not strengthen that substantially, however. The share of both currencies in terms of the currency structure of the loan portfolio will stay above 98%.

ČEB's assumptions of its financial situation for 2011 are as follows:

- Further strengthening and extending of the client portfolio with a focus on companies with export potential based on the competitive export programme;
- With respect to the parameters of pipeline transactions the volume of newly signed credit agreements is expected to be similar as in 2010;
- Paying exceptional attention to the SME sector;
- Maintaining the current acceptable risk profile while reviewing the possibilities of risk diversification in cooperation with the commercial banks;
- Inviting commercial banks into joint financing of exports to a greater extent by the co-financing of large-scale transactions;
- The co-financing of large-scale new transactions with commercial banks will increase the loan portfolio;
- Maintaining the quality of the loan portfolio and ensuring appropriate terms and conditions for receivables whose consistent repayment is threatened;
- Maintaining the current amount of share capital, ie CZK 4,000 million;
- The business potential will require new funds for financing exports, which ČEB obtains exclusively on financial markets. In addition to obtaining new funds that become due in the mid- and long-term, ČEB considers improving the structure of funds by launching the Euro Commercial Papers programme (debts instruments with maturity within one year);
- Further improving the efficiency in using funds allocated from the Czech state budget for 2011 for financing exports by a subsidy to cover losses from its provision in accordance with Act 58/1995 Coll., ie principally to minimise differences between interest income arising from advanced loans and costs of raised funds for the financing thereof;
- Revamping the banking information system comprehensively;
- Continuing to generate reasonable profit and returning the generated funds to the system for supporting exports in accordance with Act 58/1995 Coll.; and
- Continuing the implementation of the new banking information system.



Narrative Part

» 3. Narrative Part

3.1. Risks to which the Bank is Exposed, Objectives and Methods of Risk Management

Risk Factors

The risk management in the Bank in all risk management segments is based on the rules of prudential operations determined by the regulator. In its risk management, the Bank maintains the principle of a limited risk profile, which is based on the system of internal limits for individual types of risks, products, and debtors.

The risk management process in the Bank is independent from its business units. The executive unit for risk management is the Risk Management Division. The Credit Risk Management Department has been charged with managing credit risk relating to individual transactions. The Bank's Risk Management Division manages credit risk on the portfolio level, market risks, operational risks, liquidity risks, concentration risks, and risks relating to information systems operations. The risk management process is supervised by the Board of Directors of the Bank, which is regularly informed about risk exposures. The Board of Directors determines and regularly assesses the accepted level of risk, including credit risks, market risks, operational risks and the concentration risk.

In order to comply with the statutory obligation in the planning and ongoing maintenance of the internally determined capital in the amount, structure, and distribution that is sufficient to cover all risks to which the Bank is or may be exposed, the Bank maintains the Internal Capital Adequacy Assessment Process (ICAAP). Methods used to assess and measure individual risks included in the ICAAP that are used in relation to its risk profile are approved by the Board of Directors. Quantifiable risks are assessed in the form of internally determined capital needs. Other risks in ICAAP are covered by qualitative measures in risk management, organisation of processes, and control mechanisms (Code of Ethics, communication policy etc.). The internal capital adequacy in 2010 was sufficient to cover the risks to which the Bank is exposed.

During 2010, the Bank did not exceed any limits determined by the regulator, ie the Czech National Bank.

Individual types of risk are managed in compliance with the legislation in force, regulations of the Bank and best practice principles.

3.1.1. Credit Risk

Credit risk, ie the risk of suffering losses owing to a counter-party's default in meeting its obligations arising from a credit agreement, based on which ČEB has become the contractual party's creditor, is managed by the following credit risk evaluation system:

- Debtor's risk management
 - Assessing and monitoring the debtor's credit scoring, and determining the debtor's internal rating
 - Monitoring the relations of entities and the structure of financially related entities
 - Determining the limit applicable to the debtor or financially related group of entities
 - Monitoring credit exposure with respect to entities or financially- or otherwise-related groups of entities
 - Classifying receivables and provisioning
- Transaction risk management
 - Assessing and monitoring the specific risk of transactions in terms of the quality of collateral and determining the acceptable level of collateral
 - Regular on-site visits
- Portfolio risk management
 - Monitoring the portfolio credit risk
 - Regular stress testing of the portfolio credit risk
 - Determining the limits to mitigate the portfolio credit risk
- Credit risk concentration management
 - Concentration risk in ČEB principally arises from credit risk concentration

- Monitoring the credit risk concentration in terms of the debtor’s country of domicile, country of export and industry
- Determining limits to mitigate the credit risk concentration

To minimise credit risk in providing supported financing, ČEB employs standard credit risk reduction techniques such as EGAP credit risk insurance. At present, ČEB uses no credit derivatives to minimise credit risk.

For credit risk and concentration risk, ČEB maintains an established management system that monitors the tracked exposures on a daily basis, comparing them against limits designated by the regulator or derived from acceptable risk levels. The results of the credit portfolio analyses including the results of the stress testing of the portfolio credit risk are submitted, on a regular basis, to senior managers in charge of risk management.

3.1.2. Market Risk

Market risk is a risk of suffering losses owing to changes in market factors, ie prices, exchange rates and interest rates on financial markets. Market risk management in ČEB is a process that includes identifying, measuring, and performing an ongoing review of the application of limits, and analysing and reporting, on a regular basis, individual risks to ČEB’s committees and management so as to manage negative financial impacts potentially resulting from these adverse changes in market prices.

ČEB is not exposed to risk on shares and commodity risk. To manage foreign currency risk and interest rate risk, ČEB uses the following methods:

- Interest rate risk management
 - Gap analysis
 - Duration analysis
 - Sensitivity factor analysis, limits for individual currencies
- Foreign currency risk management
 - Sensitivity factors analysis, limits for individual currencies
- Aggregate market risk management
 - Value at Risk (VaR) – ČEB uses a historical method and the covariance-variance method with the confidence level of 99%, with a 10-day outlook based on a 260-day history.

To minimise foreign currency risk and interest rate risk, ČEB currently uses currency forwards and swaps.

To manage market risk, ČEB maintains an established management system that monitors risk exposures on a daily basis, comparing them against limits derived from acceptable risk levels.

3.1.3. Refinancing Risk

To monitor refinancing risk, the Bank measures the impact on the Bank’s profit/loss account of increased interest expenses arising from an increased credit spread that the Bank would have to incur to become sufficiently liquid during the global downturn.

The Bank manages the refinancing risk by appropriately structuring received funds (primarily their maturities and volumes).

3.1.4. Liquidity Risk

To manage liquidity risk, ČEB maintains an established management system that monitors liquidity status and outlook on a daily basis, comparing them against determined limits.

- Liquidity risk is managed by:
 - Measuring and comparing the inflow and outflow of cash, ie monitoring net cash flows for the period of at least five working days ahead

- Gap analyses that measure the maximum cumulated outflow of cash and limits in individual currencies and time gaps
- Quarterly measurements using worst case scenarios (stress testing)

ČEB has a set of liquidity indicators in place to manage the structure of assets and liabilities, ie the required structure of funds aligned with the structure of granted loans, loan commitments and issued guarantees, the minimal volumes of quickly liquid assets and liquid reserves.

To deal with liquidity problems under extraordinary circumstances, ČEB has emergency plans in place. In 2010, ČEB had no problems ensuring sufficient liquidity.

3.1.5. Operational Risk

ČEB manages the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of loss arising from external events including the risk of losses owing to the breach of or non-compliance with legal regulations.

The key tool ČEB uses to manage its operational risk is the early warning system, which is based on the system of risk indicators and warning limits that signal greater probability of operational risk events. The monitoring system includes standard rules to monitor the operational risk events.

To manage specific types of operational risk such as ICT security risk, legal risk, compliance risk, goods and services procurement risk, outsourcing risk, ČEB uses stand-alone methods in compliance with valid legislation and ČEB's regulations.

In 2010, no operational risk events and security incidents were reported that would, based on the known facts, materially compromise the operations of ČEB's key processes.

3.1.6. Capital Adequacy and Capital Requirements

31 December 2010	CZK mil.
Capital	4 956
Original capital (Tier1)	4 956
Paid in share capital registered in the Register of Companies	4 000
Reserves and retained earnings	1 034
Mandatory reserves	494
Other funds arising from distribution of earnings	540
Other deductible items from the original capital	-78
Intangible assets other than goodwill	-78
<hr/>	
31 December 2010	CZK mil.
Total capital requirements	731
Total capital requirements in respect of credit risk	657
Total capital requirements in respect of credit risk under STA	657
Total capital requirements in respect of credit risk under STA in respect of exposure	657
Capital requirements under STA in respect of exposures to central governments and banks	7
Capital requirements under STA in respect of exposures to institutions	310
Capital requirements under STA in respect of corporate exposures	266
Capital requirements under STA in respect of overdue exposures	40
Capital requirements under STA in respect of exposures in covered bonds	4
Capital requirements under STA in respect of current exposures to institutions and corporate exposures	21
Capital requirements under STA in respect of other exposures	9
Total capital requirements in respect of operational risk	74
Capital requirements in respect of operational risk under BIA	74

31 December 2010		CZK mil.
Type of exposure	Total exposure value	2010 average
Exposure in respect of central governments and banks	4 443	4 432
Exposure in respect of institutions	42 044	45 336
Corporate exposure	67 972	59 968
Overdue exposure	2 782	2 704
Current exposures in respect of institutions and current corporate exposures	3 786	3 745
Other exposures	637	875

3.2. Risk Factors Potentially Impacting the Capacity of Issuers to Meet their Liabilities under Securities to Investors

The capacity of ČEB to meet its liabilities under securities to investors is unconditionally and irrevocably guaranteed by the state pursuant to Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support.

3.3. Remuneration Principles for Persons with Managing Powers

a) Remuneration principles for directors

Pursuant to Act 256/2004 Coll., on Undertakings on Capital Markets, as amended, directors in ČEB include the members of the Board of Directors who, in line with ČEB's Articles of Association, ensure its business management and bookkeeping, and make decisions on all matters falling under its competence. At the same time, these persons are executives acting as the CEO and Deputy CEOs. No proxy was constituted in ČEB.

ČEB's Articles of Association describe the principles of remunerating persons who have managing powers:

- The General Meeting approves the remuneration principles of executives and members of ČEB's bodies;
- The Supervisory Board proposes the remuneration principles of executives and members of ČEB's bodies to the General Meeting;
- The Supervisory Board defines detailed conditions for remunerating executives and the members of ČEB's bodies based on the remuneration principles of executives and members of ČEB's bodies approved by the General Meeting;
- The Supervisory Board determines the CEO's salary in compliance with the remuneration principles of executives and members of ČEB's bodies based on the Board of Directors' proposal;
- The salary proposal of the Chief Executive Office who, at the same time, acts as the Chairman of the Board of Directors is submitted to the Supervisory Board by the Board of Directors;
- The Board of Directors determines the salary of employees who act as Deputy CEOs in compliance with the remuneration principles of executives and members of ČEB's bodies;
- If remuneration is to be paid for holding a position in ČEB's bodies, the Supervisory Board submits a proposal to the General Meeting on the remuneration for the members of the Board of Directors, the Supervisory Board and the Audit Committee;
- The General Meeting decides on the remuneration of the members of the Board of Directors, the Supervisory Board and the Audit Committee for holding their positions without prejudice to the provision of Section 303 (3) of Act 262/2006 Coll., the Labour Code; and
- The Audit Committee determines the remuneration principles for the Internal Audit Manager.

Other remuneration principles are described in ČEB's Salary Policy, which is approved by the Board of Directors. ČEB has no Remuneration Committee in place.

b) Salaries and bonuses of executives

The contractual salary of executives, ie the members of the Board of Directors, which is not the salary for holding the office of a member of the Board of Directors, comprises the fixed salary component, ie the base salary, and the variable salary component, ie bonuses based on the results of operations and extra bonuses.

The level of bonuses based on the results of operations is a percentage of the base salary; the maximum for executives – members of the Board of Directors – is 100%.

Bonuses for the results of operations are awarded to executives – members of the Board of Directors – for the overall fulfilment of ČEB's (the employer's) plans, specifically for the fulfilment of criteria (principles) designated in the Financial and Business Plan approved by the Board of Directors for the given calendar year, to which the Supervisory Board gives its consent. The ultimate amount of bonuses for the results of operations is tied to meeting the criteria based on the principles determined by the Supervisory Board.

The amount of extra pay is not predefined. Extra pay is awarded to executives – members of the Board of Directors – for fulfilling exceptionally significant tasks for ČEB (the employer). Extra pay for executives – members of the Board of Directors – is approved by the Board of Directors upon agreement with the Chairman of the Supervisory Board in compliance with the remuneration principles of executives and members of ČEB's bodies.

c) Salaries and bonuses of the Supervisory Board members who are ČEB's employees

Three out of nine members of the Supervisory Board are elected from among the employees of ČEB. Their contractual salaries for employment are not salaries for holding the office of the members of the Supervisory Board. Contractual salary comprises a fixed salary component, ie the base salary, and a variable salary component, ie bonuses for the results of operations, and motivation bonuses paid to employees who are members of the Supervisory Board elected by employees holding non-business positions. In addition, employees can receive extra pay.

The salaries of the three members of the Supervisory Board are approved by the CEO or by ČEB's Board of Directors if the three members act as managers of departments or stand-alone units of ČEB.

The amount of the variable salary component is a percentage of the base salary, ie typically ranging from 25–70%, based on the position held by the members of the Supervisory Board elected by the employees in ČEB.

The variable salary component of the members of the Supervisory Board who are employees of ČEB is approved by the CEO. The principles for determining and awarding the variable salary component in addition to the base salary of employees who are members of the ČEB's Supervisory Board are based on designated tasks and ČEB's development plans:

- bonuses for the results of operations for the overall fulfilment of the plans of ČEB (the employer), subject to meeting the criteria (principles) determined in the Financial and Business Plan approved by the Board of Directors for the given calendar year and based on the evaluation of the employee's contribution in the given calendar year.
- motivation bonuses for completing the tasks assigned to employees in the breakdown of indicators used to evaluate the employee's contribution in the given calendar year awarded to employees holding non-business positions; the fulfilment of indicators is evaluated by the employee's direct supervisor. The amount of extra pay for the members of the Supervisory Board elected from among employees is not predefined.

Extra pay is awarded for completing extraordinary and important tasks that are beyond the employee's regular duties or for achieving exceptional results at work.

Extra pay awarded to the members of the Supervisory Board who are ČEB's employees are approved by the CEO, where the extra pay is paid from ČEB's common funds intended for this purpose, or by the relevant executive – member of the Board of Directors where extra pay is paid from the extraordinary remuneration fund of executives – members of the Board of Directors.

3.4. Received income of directors and members of ČEB's bodies in cash and in kind for 2010

ČEB's employees who are members of the Board of Directors and the Supervisory Board receive income from ČEB, in cash and in kind, exclusively arising from their employment. Given that ČEB does not control any other entities, ČEB's employees who are members of the Board of Directors and the Supervisory Board cannot receive income in cash or in kind from controlled entities.

Costs of received income in cash and in kind in CZK thousand	ČEB's Executives	ČEB's Employees
	– BoD Members	– Members of the Supervisory Board
Salaries	29 765	3 066
In kind and other	3 312	78
Total	33 077	3 144

Pursuant to Section 303(3) of Act No. 262/2006 Coll., the Labour Code, the members of the Supervisory Board who are not employees of ČEB but who are employees of central bodies receive no income for holding this office.

3.5. Information regarding Codes

In 2009, ČEB designed the Corporate Governance Code of Česká exportní banka, a.s. (hereinafter the "Code"). The Board of Directors approved the Code on 13 October 2009 and the Supervisory Board was informed of the Code on 5 November 2009. The Code is publicly available in Czech on the ČEB's website:

<http://www.ceb.cz/content/view/1266/201/>.

In preparing the Code, ČEB followed the Corporate Governance Code based on the OECD principles published by the Czech National Bank. The procedures applied by ČEB differ from the OECD principles in the following areas:

- Shareholders at the General Meeting are the representatives of ministries who represent the direct share of the state in the execution of shareholders' rights.
- The election and removal of the members of the Board of Directors falls under the competence of the Supervisory Board.
- At the General Meeting, shareholders elect or remove the members of the Supervisory Board, except for those members of the Supervisory Board who are elected by the employees of ČEB.
- The determination of principles of awarding salaries and their components to the members of the Board of Directors for holding their executive offices falls under the competence of the Supervisory Board.
- ČEB has no equity-based remuneration scheme for the members of the Board of Directors or for employees;
- Given the nature, scope and complexity of ČEB's business activities, ČEB's share in the banking market in the Czech Republic, as measured by the share of ČEB's assets in the aggregate bank assets, is 1.4%. ČEB establishes neither of the following:
 - Remuneration Committee, because the Supervisory Board determines the principles for awarding the salaries and components thereof to the members of the Board of Directors, or
 - Appointment Committee.

On 21 December 2007, the Board of Directors approved the Code of Ethics for Employees, which was included in internal regulations, and ČEB's employees are bound to comply with its provisions. ČEB's employees submit an affidavit, on an annual basis, declaring that they experienced no situation that could be considered a conflict of interest during the year. The Code of Ethics for Employees is available to the public in Czech on ČEB's website (<http://www.ceb.cz/content/view/1266/201/>).

3.6. Decision-Making Process Description

a) General Meeting

The General Meeting is opened and, until the Chairman of the General Meeting is elected, also chaired by the member of the Board of Directors authorised by the Board to chair the General Meeting. A similar procedure is adopted when a General Meeting is called by the Supervisory Board.

The General Meeting has a quorum if shareholders holding shares in the total nominal value of greater than 50% of the share capital of the Bank are present. If the General Meeting does not have a quorum, the Board shall call a substitute General Meeting.

The General Meeting votes by acclamation unless the General Meeting decides otherwise. The General Meeting adopts the decisions by a simple majority of the votes by the shareholders present, unless the previous paragraph implies otherwise. The draft resolution is submitted to the General Meeting by the Chairman. If a shareholder

submits a proposal or counterproposal (for more details, refer to the Articles), the counterproposal is voted on first. The results of the vote are communicated to the General Meeting by the Chairman.

If the state votes as a shareholder, the vote is valid if the ministries executing shareholder rights vote by majority of all individual votes of the voting ministries executing the state's shareholder rights, which are not votes per share. To stipulate the majority of votes, the votes are divided as follows:

Ministry of Finance	52 votes
Ministry of Industry and Trade	30 votes
Ministry of Foreign Affairs	12 votes
Ministry of Agriculture	6 votes

b) Supervisory Board

The Supervisory Board consists of nine members who are natural persons. Two-thirds of the members of the Supervisory Board are elected by the General Meeting on the basis of a written proposal by a shareholder; the remaining third are elected by the employees of the Bank.

Meetings of the Supervisory Board are called and chaired by the Chairman or Vice Chairman of the Supervisory Board. In writing, the Chairman may authorise another member of the Board to call the Supervisory Board.

The Supervisory Board decides by resolutions. The Supervisory Board has a quorum if at least six of its members are present. Resolutions of the Supervisory Board are adopted by a majority of the present members.

c) Credit Committee

Credit Committee meetings take place once a week and are chaired by the Chairman. When absent, the Chairman is replaced by the Vice Chairman with respect to all matters. If both the Chairman and Vice Chairman are absent, provided the Credit Committee was duly called and has a quorum, the meeting is chaired by the member of the Credit Committee representing the Risk Management Department.

The Credit Committee has a quorum if all of its members were duly and timely invited to the meeting and if at least three members are present.

The Credit Committee adopts conclusions on individual issues on the agenda by a vote of its members. Each member has one vote. Resolutions are adopted if approved by the votes of at least three members.

d) Assets and Liabilities Management Commission (ALCO)

ALCO meetings take place at least once a month and are chaired by its Chairman. When absent, the Chairman is replaced by the Vice Chairman. If both the Chairman and the Vice Chairman are absent, the ALCO meeting cannot take place.

The ALCO has a quorum if all members were duly and timely invited to the meeting and if at least four ALCO members are present, at least one of whom must be from the Risk Management Division and one of whom must be from the Finance Division. Each ALCO member has one vote.

Conclusions on each issue are voted on individually. Firstly, a conclusion is voted in respect of the proposal presented by the ALCO Chairman, or by the Vice Chairman, if the Chairman is not present, and then on the counterproposals as they were submitted. ALCO votes by acclamation, unless another way has been agreed upon. The ALCO's resolutions are adopted by a majority of all ALCO members, ie by at least four votes.

e) IT Development Commission (ITDC)

ITDC meetings usually take place once a month and are chaired by the Chairman. When absent, the Chairman is replaced by the Vice Chairman. If both the Chairman and Vice Chairman are absent, the ITDC meeting cannot take place.

The ITDC has a quorum if all members were duly and timely invited to the meeting and a majority of ITDC members attend the meeting, ie at least six members. Each ITDC member has one vote.

ITDC resolutions are adopted by a majority of all ITDC members, ie by at least six votes.

f) Operational Risks Management Commission (ORCO)

The ORCO structure is, in line with the Bank's Articles of Association, approved by the Board of Directors. The ORCO consists of seven members; the Board appoints the ORCO Chairman and Vice Chairman. The ORCO decided regular guests and the ORCO secretary appointed by the Chairman can participate in ORCO meetings. Each ORCO member is entitled to appoint a representative, who shall attend the ORCO meeting if the member himself cannot attend. ORCO member representatives do not have voting rights.

ORCO meetings take place at least once every three months. The ORCO is capable of adopting conclusions if all members have been duly and timely invited to the meeting and a majority of all ORCO members, ie at least five members, one of whom must be from the Risk Management Department, attends the meeting. Each ORCO member has one vote. Conclusions on each issue are voted on separately. First, a proposal of the ORCO chairman is voted on; then the counterproposals are voted on in the order they were submitted. The ORCO votes by acclamation, unless another way has been agreed upon. ORCO resolutions are adopted by a majority of all ORCO members' votes, ie by at least five votes.

3.7. Authorised Auditors

In a 2009 tender, the Bank selected Deloitte Audit, s.r.o. to be its auditor. Deloitte Audit, s.r.o.'s registered office is located at the following address:

Nile House
Karolínská 654/2
186 00 Praha 8 – Karlín
Czech Republic

In 2009, the remuneration of Deloitte Audit, s.r.o. amounted to CZK 1,065 thousand; in 2009, PricewaterhouseCoopers Audit, s.r.o. charged fees amounting to CZK 3 017 thousand for completing its audit work for 2008. Deloitte Audit, s.r.o. was tasked to perform audit work for 2010. In 2010, the remuneration charged by Deloitte Audit, s.r.o. amounted to CZK 3 375 thousand.

3.8. Persons responsible for the annual report

Using all reasonable effort to ensure the information stated herein, the below signed persons declare that according to the best of their knowledge, the data stated in the part of the document below for which the persons are responsible are true and the document does not withhold any facts that could change the meaning of this part of the document.

Person responsible for preparation	Chapter
Ing. Roman Šikl Head of the CEO Office	1. Profile of Česká exportní banka, a.s., except chapter 1.7 3. Narrative Part, chapter 3.6. 5. Report on the Relations
Ing. Věra Adamcová Head of Controlling Department	2. Report of the Board of Directors on the Bank's Business Activities and its Assets and Liabilities in 2010, chapters 2.1.4, 2.1.5 and 2.2.
Mgr. René Hanyk Head of Bank Risk Management Department	4. Narrative part, chapters 3.1, except 3.1.5, and 3.2.
Ing. Vladimír Šon Head of Reporting	Key indicators 1. Profile of Česká exportní banka, a.s., chapter 1.7. 2. Report of the Board of Directors on the Bank's Business Activities and its Assets and Liabilities in 2010, chapters 2.1.5 and 2.2. 3. Narrative Part, chapters 3.2, 3.5 and 3.8.
Ing. Iveta Horníčková, MBA Head of SME Department	2. Report of the Board of Directors on the Bank's Business Activities and its Assets and Liabilities in 2010, chapter 2.1.4.
PhDr. Ľubica Belásová Head of Human Resources	3. Narrative part, chapters 3.3 and 3.4.
Mgr. Petr Smejkal Head of Legal Department	3. Narrative part, chapters 3.9 and 3.11.
Ing. Marcela Šrůtková Accounting Department	3. Narrative part, chapter 3.1.6.
Věra Malá Head of Accounting Department	3. Narrative part, chapters 3.7 and 3.10. 4. Financial part

The persons who executed the financial statements also declare that to the best of their knowledge and belief the entire annual report gives a true and fair view of the financial position, business activities and results of operations of Česká exportní banka, a.s. for the year ended 31 December 2010, and of the future outlook of its financial position, business activities and results of operations.

3.9. Court Proceedings and Arbitration

Named as a Defendant

1) Plaintiff: AIG EUROPE (UK) LIMITED

- Held at: International Arbitral Centre of the Austrian Economic Chamber Vienna, file no. SCH-5066
- Disputed amount: USD 15,673,125
- Status: The court decided in favour of ČEB; ČEB is currently waiting for the decision regarding the costs of the proceedings, which have been stated by ČEB to amount to CZK 51,306,998.16 plus EUR 357,790.07

As of 1 October 2010, ČEB received a verdict from the Court of Arbitration in Vienna, which rejected all claims of the plaintiff, while the costs of the arbitration proceedings will be determined by an additional ruling of the same court.

- 2) Plaintiff: JUDr. Lužová, SKP MARO, spol. s r. o.
 - Held at: District Court for Prague 1, file no. 17 C 398/2003
 - Disputed amount: CZK 2,304,866.10
 - Status: Repeatedly suspended

- 3) Plaintiff: ZPS, a.s., tř. Tomáše Bati, Zlín, corporate ID 00009393
 - Held at: Regional Court in Brno, file 12 Cm
 - Disputed amount: CZK 1,000,000,000
 - Status: Lawsuit that lacks merit and is designed to obstruct the optimal course of action (frivolous and abusive claim), fully taken back by the plaintiff

Named as a Plaintiff

- 1) Defendants: I.H.C. s. r.o., Ernest W. Látal, Otomar Hrbotický
 - Held at: Regional Court in Prague, file no. 49Cm 708/2009
 - Disputed amount: EUR 57,243.55
 - Statement of claim: issuance of compulsory payment order in the form of a bill
 - Status: the compulsory payment order in the form of a bill was issued (17 December 2009), objections were raised, ČEB commented on the objections (6 April 2010), no court proceedings have been ordered so far

- 2) Defendants: VITKA TEXTILES a.s. (insolvency – severance of claims) + STRATOS O7 s.r.o.
 - Held at: Municipal Court in Prague, file no. 54 Cm 306/2009
 - Disputed amount: EUR 204,907.47
 - Statement of claim: issuance of compulsory payment order in the form of a bill
 - Status: the compulsory payment order in the form of a bill has not been issued yet

- 3) Defendants: Ing. Dostálík, M. Sadil and J. Šťovíček
 - Held at: Municipal Court in Prague, file no. 23Cm 228/2010
 - Disputed amount: CZK 2,319,304.44 excl. related costs
 - Statement of claim: issuance of compulsory payment order in the form of a bill
 - Status: the compulsory payment order in the form of a bill was issued (9 August 2010), objections were raised, no court proceedings or completion of the action have been ordered so far.

3.10. Events that Occurred After the Balance Sheet Date

With effect from 14 February 2011, the Supervisory Board elected two new members to the Board of Directors, Ing. Tomáš Uvíra and Mgr. Luboš Vaněk, and subsequently the Board of Directors elected from its members Ing. Tomáš Uvíra as the Chairman and Director General.

Based on the decision of the International Arbitration Tribunal, AIG gradually settles the legal representation costs and the arbitration costs that were incurred by ČEB in recent years.

3.11. Contracts of Significance

In 2010, the Bank did not conclude any contract of significance that could establish liability or claim significance with regard to the ability of the issuer to meet his liabilities towards the holders of the securities based on issued securities except the contracts concluded as part of the Bank's regular business.



Financial Part



Česká exportní banka, a.s.

Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for year ended 31 December 2010

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Financial Statements

year ended of 31 December 2010



INCOME STATEMENT

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2010	2009
Interest income		2 887	2 011
Interest expense		(2 755)	(2 169)
Net interest income	3a, 6, 29	132	(158)
Net fee and commission income	7	38	25
Net profit from financial operations, including state subsidy	8	552	780
Other operating earnings		6	3
Net operating income		558	783
Other administrative expenses		(279)	(240)
Other operating expenses		(59)	(48)
Amortisation and depreciation		(17)	(13)
Creation of reserves	22	14	(5)
Operating costs	9	(341)	(306)
Impairment losses on loans	10	(170)	(176)
Profit before income tax		217	168
Income tax expense	11	(146)	(74)
Net profit for the year		71	94

STATEMENT OF COMPREHENSIVE INCOME

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2010	2009
Net profit for the year		71	94
Unrealized net gains (losses) on the revaluation of assets and liabilities	25	(1)	20
Unrealised losses on cash flow hedging instruments, net of tax	25	(154)	(189)
Other comprehensive income for the period, net of tax		(155)	(169)
Total comprehensive income		(84)	(75)

The notes are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2010	2009
ASSETS			
Cash and balances with central bank	13	642	378
Financial instruments held for trading	15	62	1 549
Financial instruments available-for-sale	16	1 748	1 984
Loans and receivables	14	59 856	43 210
Financial instruments held-to-maturity	16	1 825	1 799
Hedging derivatives with positive fair value	15	81	104
Equipment	17	39	20
Intangible assets	18	78	25
Other assets	19	133	368
Deferred income tax assets	23	331	296
Total assets		64 795	49 733
LIABILITIES			
Financial liabilities held for trading	15	61	20
Financial liabilities at amortized cost and guaranteed liabilities	20	58 690	44 955
Hedging derivatives with negative fair value	15	2 008	1 558
Other liabilities	21	50	162
Provisions	22	3	17
Current income tax liabilities	23	64	68
Total liabilities		60 876	46 780
Share capital	24	4 000	2 950
Revaluation reserve	25	(1 187)	(1 032)
Statutory reserve	26	494	400
Other special fund	26	541	541
Retained earnings		71	94
Total equity		3 919	2 953
Total liabilities and equity		64 795	49 733

The notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	Share capital	Retained earnings	Statutory reserve	Export risk reserve	Revaluation reserve	Total
At 1 January 2009		2 000	122	370	449	(863)	2 078
Change in Available for sale securities, net of tax	25	-	-	-	-	20	20
Change in cash flow hedges, net of tax	25	-	-	-	-	(189)	(189)
Net profit for the year		-	94	-	-	-	94
Total recognised profit/(loss)		-	94	-	-	(169)	(75)
Increase of share capital	24	950	-	-	-	-	950
Transfer to export risk reserve	26	-	(92)	-	92	-	-
Transfer to statutory reserve	26	-	(30)	30	-	-	-
At 31 December 2009		2 950	94	400	541	(1 032)	2 953
Change in cash flow hedges, net of tax	25	-	-	-	-	(155)	(155)
Net profit for the year		-	71	-	-	-	71
Total recognised profit/(loss)		-	71	-	-	(155)	(84)
Increase of share capital	24	1 050	-	-	-	-	1050
Transfer to statutory reserve	26	-	(94)	94	-	-	-
At 31 December 2010		4 000	71	494	541	(1 187)	3 919

The notes are an integral part of the financial statements.

CASH FLOW STATEMENT

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1 877	1 573
Interest paid		(2 044)	(1 935)
Net fee and commission received		8	35
Net trading and other income		1 862	140
Recoveries on loans previously written off		502	245
Cash payments to employees and suppliers		(317)	(275)
Income tax paid		(148)	(39)
Other taxes paid		(26)	(24)
Net cash used in operating activities before changes in operating assets and liabilities		1 714	(280)
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net decrease in loans to banks		1 164	2 747
Net increase in loans to customers		(19 792)	(10 627)
Net increase in other liabilities		764	177
Net decrease in due to banks		(1 438)	(666)
Net increase in due to customers		1 010	926
Net cash used in operating activities		(16 578)	(7 723)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(98)	(30)
Purchase of securities		(665)	(2 942)
Proceeds from matured securities		1 145	996
Proceeds from sale of securities		53	26
Net cash used in investing activities		435	(1 950)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of bonds		19 920	11 682
Redemption of issued bonds		(5 500)	(5 410)
Receipts from issue of ordinary shares	26	1 050	950
Receipts of state subsidy	8	742	471
Net cash from financing activities		16 212	7 693
Effect of exchange rate changes on cash and cash equivalents		(4)	74
Net increase in cash and cash equivalents		65	(1 906)
Cash and cash equivalents at beginning of year	12	2 403	4 309
Cash and cash equivalents at end of year	12	2 468	2 403

The notes are an integral part of the financial statements.



General Information



1 / GENERAL INFORMATION

Česká exportní banka, a.s. ("the Bank") was established on 1 March 1995 and its registered address is Vodičkova 34/701, Prague 1. The Bank does not have any branches in the Czech Republic or abroad. In 2008, the Bank received a licence from the Central Bank of the Russian Federation to open the Bank's representative office in Moscow.

The Bank is authorized to provide banking services, which predominantly comprise accepting deposits from the public and granting credits and guarantees in Czech and foreign currencies, issuing letters of credit, clearing and payment operations, trading on its own account with financial instruments denominated in foreign currencies, with securities issued by foreign governments, with foreign bonds and securities issued by the Czech government.

The activities of the Bank are primarily governed by Act No. 21/1992 Coll., on Banks, as amended, Act No. 58/1995 Coll., on Insurance and Financing Exports with State Subsidies ("Act No. 58/1995 Coll."), and Act No. 513/1991 Coll., Commercial Code, as amended. Concurrently, the Bank is subject to the CNB's regulatory requirements.

The principal objective of the Bank is to provide financing of Czech exports and investments abroad supported by the Czech state in accordance with international rules - mainly through the provision of credit facilities and guarantees.

Pursuant to Act No. 58/1995 Coll., the provision of officially supported financing by the Bank is conditional to the existence of collateral, unless export credit risk is insured by Exportní garanční a pojišťovací společnost, a.s. ("EGAP").

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

Standard & Poor's issued the "A" credit rating to the Bank and Moody's Investor Service issued the "A1" credit rating. The Bank's issued bonds are listed on the Luxembourg Stock Exchange.

2 / ACCOUNTING POLICIES

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

(a) Basis of presentation

The Bank's financial statements have been prepared as stand-alone financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The financial statements have been prepared under the historical cost convention. Securities available for sale, all derivative contracts and hedged instruments at fair value are re-measured at fair value as of the balance sheet date.

Standards and interpretations that have an impact on the financial statements in the reporting period

The use of standards, amendments and interpretations set below and effective for the preparation of the financial statements as of 31 December 2010 does not significantly impact the accounting policies of the Bank.

- IAS 39 – Financial Instruments: Recognition and Measurement – amendment: Eligible Hedged Items (effective from 1 July 2009); and
- Annual Improvements effective as of 1 January 2010 (IFRS 2, 5 and 8, IAS 1, 7, 17, 36, 38 and 39, IFRIC 9 and 16) (Commission Regulation (EU) no. 243/2010 of 23 March 2010, effective from 1 July 2009, selected items from 1 January 2010).

Standards and interpretations that do not have any impact on the recognition or measurement in the reporting and comparative periods because no event regulated by the guidelines occurred in the Bank.

- IFRIC 12, Service Concession Arrangements (Commission Regulation (EU) no. 254/2009 of 25 March 2009, change effective from 1 January 2010);
- IFRIC 15, Agreements on the Construction of Real Estates (Commission Regulation (EU) no. 636/2009 of 22 July 2009, change effective from 1 January 2010);

- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (Commission Regulation (EU) no. 460/2009 of 4 June 2009, change effective from 1 July 2009);
- IFRIC 17, Distribution of Non-Cash Assets to Owners (Commission Regulation (EU) no. 1142/2009 of 26 November 2009, change effective from 31 October 2009);
- IFRIC 18, Transfers of Assets from Owners (Commission Regulation (EU) no. 1164/2009 of 27 November 2009, change effective from 31 October 2009);
- IAS 27, Consolidated and Separate Financial Statements (Commission Regulation (EU) no. 494/2009 of 3 June 2009, change effective from 1 July 2009) determines under what circumstances the entity has to prepare the consolidated financial statements, how parent companies have to reflect changes in their equity investments in subsidiaries and how the losses of subsidiaries should be allocated to the controlling and non-controlling interest;
- IFRS 3, Business Combinations (Commission Regulation (EU) no. 495/2009 of 3 June 2009, the change effective for business combinations for which the date of acquisition is subsequent to the start of the first reported period starting 1 July 2009 or later);
- IFRS 1, First-Time Adoption of IFRS – amendment: Additional Exemptions for First-Time Adopters (Commission Regulation (EU) no. 549/2010 of 23 June 2010 effective from 1 January 2010); and
- IFRS 2, Share-Based Payment – amendment: Group Cash-Settled Share-Based Payment Transactions (Commission Regulation (EU) no. 244/2010 of 23 March 2010, effective from 1 January 2010).

Unapplied standards

Set out below are standards that were endorsed by the European Commission, but the Bank does not apply them in advance of their effective dates and standards that have not been endorsed by the European Commission.

- IAS 32, Financial Instruments, Presentation – Accounting for Rights Issues (Commission Regulation (EU) no. 1293/2009 of 23 December 2009) – the amendment determines how to account for certain rights when issued instruments are denominated in a currency different from the functional currency of the issuer (change effective from 31 January 2010) – the Bank issued no equity instruments denominated in a foreign currency.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, and IFRS 1 First-Time Adoption of IFRS and IFRS 1, First-Time Adoption of IFRS – refer to Extinguishing Financial Liabilities with Equity Instruments (Commission Regulation (EU) no. 662/2010 of 23 July 2010, effective from 1 July 2010);
- IAS 24, Related Party Disclosures and IFRS 8, Operating Segments (Commission Regulation (EU) no. 632/2010 of 19 July 2010, effective from 31 December 2010 and clarify the definition of a related party and its presentation in reporting segments);
- IFRIC 14, Prepayments of a Minimum Funding Requirement (Commission Regulation (EU) no. 633/2010 of 19 July 2010, effective from 31 December 2010 reflecting contribution advance payments);
- IFRS 1, Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters and IFRS 7, Financial Instruments: Disclosures (Commission Regulation (EU) no. 574/2010 of 30 June 2010, effective from 30 June 2010); and
- IFRS Improvements, published in May 2010 (Commission Regulation (EU) no. 149/2011 and effective from 1 January 2011);

The Bank's management is currently considering the impacts of the application of other standards and interpretations or their changes on financial statements in the following period:

- IFRS 9, Financial Instruments – replaces IAS 39 (effective from 1 January 2013);
- IFRS 7 Financial Instruments: Disclosures (effective from 1 July 2011);
- IFRS 1 First-Time Adoption of IFRS – Removal of Fixed Dates for First-Time Adopters (effective from 1 July 2011);
- IFRS 1 First-Time Adoption of IFRS – Severe Hyperinflation, (effective from 1 July 2011); and
- IAS 12, Income Taxes - Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012).

(b) Segment reporting

Operating segments are reported in accordance with the internal reports regularly prepared and presented to the Board of Directors of the Bank which represents a group of managers authorized to make decisions on funds to be allocated to individual segments and assess their performance.

The Bank records two operating segments, which are derived from the special purpose for which it was established, i.e. the operation of officially supported financing in accordance with Section 6 (1) of Act No. 58/1995 Coll., through independent accounting sets (circles):

- Separate set (circle) 001 – set of financing without relation to the state budget, operating activities and other relating activities in accordance with the banking licence; and
- Separate set (circle) 002 – set officially supported financing eligible for subsidy.

(c) Foreign currency translation**Functional and presentation currency**

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

Transactions and balances

Foreign currency transactions are 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 of monetary assets and liabilities in foreign currencies are reported in the income statement as 'Net profit from financial operations including state subsidy'.

The foreign exchange rates of Czech crowns to principal foreign currencies were as follows:

	USD	EUR
31 December 2010	18,751	25,060
31 December 2009	18,368	26,465

(d) Derivative financial instruments

In the normal course of business the Bank agrees contracts for derivative financial instruments, including cross-currency interest rate swaps, interest rate swaps, forward rate agreements ("FRA"), currency swaps and currency forwards. The derivative financial instruments are concluded with counterparties from OECD countries with investment ratings granted by reputable rating agencies or credible domestic counterparties, the rating of which is regularly assessed.

Financial derivatives are initially recognized at fair value in the balance sheet on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values of derivative and financial instruments that are subject to fair value hedging are obtained from discounted cash flow models, ie at level 2 of the fair value hierarchy. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Using these financial instruments the Bank minimizes the impact of the interest rate and foreign exchange rate risks so that the acceptable level of market risk is not exceeded.

The Bank does not trade derivatives with a view to generating profit; however, in respect of certain contracts contracted as hedges the Bank does not apply the hedge accounting rules. The gains or losses from these derivatives are reported in the income statement as the 'Net profit from financial operations including state subsidy'.

Derivatives accounted under hedge accounting are those derivatives which are in compliance with the interest rate risk and currency risk management strategy, the hedging terms are documented at the initial phase of the hedging relationship and the hedging is effective. 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 the relating changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement under 'Net profit from financial operations including state subsidy'.

(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 recognized 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 amortized cost of a financial asset or a financial liability and 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. In determining the effective interest rate, the Bank estimates cash flows

considering all the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and payments paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, commitment commissions and all other premiums or discounts.

(f) Fee and commission income

Fees and commissions, which are not part of the effective interest rate, are generally recognized on an accrual basis when the service has been provided. Commitment commissions for loans that are not likely to be drawn are recognized as revenue on the date of the maturity of the liability. Advisory and service fees are recognized based on the appropriate service contracts, usually on an accrual basis.

(g) Financial assets

The Bank classifies its financial assets in the following categories: Financial assets held for trading, Loans and other receivables, Available-for-sale assets and Held-to-maturity financial investments. Financial assets are classified upon initial recognition.

Financial assets held for trading

Any changes in fair value of assets classified in this category are reported under 'Net profit from financial operations including state subsidy'.

Available-for-sale financial assets

Available-for-sale financial assets are those assets 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.

Loans and other receivables

Loans provided by the Bank through the direct assignment of funds to a client are considered granted loans and measured at amortized cost. The amortized cost is the cost net of principal payments, increased by the accrued interest and increased/decreased by amortisation of discount/premium. The Bank uses the effective interest rate method to calculate the amortized cost. Premiums, discounts, fees and related transaction costs are integral parts of the effective interest rate. All loans and borrowings are accounted for when funds are provided to clients (or banks).

Held-to-maturity financial investments

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

Initial recognition of financial assets or liabilities

All purchases and sales of financial assets or liabilities, except for derivatives, are recognized at the settlement date. The Bank recognizes the acquisition of the financial asset or liability at fair value which equals the transaction price, i.e. the fair value of the counter-performance provided or received. Upon acquisition of the financial asset or liability, the Bank does not record the difference between the recognized fair value of financial assets and liabilities and the measurement value as of the specific date using the measurement technique.

Valuation of financial assets as of the balance sheet date

Financial investments held to maturity and Loans and other receivables are reported at amortized cost using the effective interest rate method.

Financial assets available for sale and financial assets held for trading are subsequently measured at fair value. Profits and losses arising from changes in fair value of financial assets available for sale are reported directly in equity until the financial asset is derecognized or impaired. The interest calculated using the effective interest rate method and foreign exchange rate gains or losses from debt securities are reported in the income statement.

In determining the fair value of quoted investments on level 1, the Bank uses current quoted offer prices. If the market is not active for a specific financial asset, the Bank determines the fair value using valuation techniques (level 2). The Bank uses quoted offer and demand market rates as input values of the valuation technique used to determine fair values of financial assets or liabilities.

As of the balance sheet date, management of the Bank assessed the used valuation methods to ensure that they sufficiently reflect the current market conditions including the relative liquidity of the market and loan range.

De-recognition of financial assets and liabilities

Financial assets are derecognized immediately when rights for collection of cash flows cease to exist or when the Bank transfers all risks and benefits arising from their ownership. Financial liabilities are derecognized as soon as they cease to exist – i.e. when they are cancelled, settled or cease to be effective.

(h) Impairment of assets

Assets carried at amortized 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 had an impact on the estimated future payments arising from the financial asset or group of financial assets.

The Bank first assesses whether objective evidence of impairment exists for individual financial assets.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics, in case it is possible to create such a group, and collectively assesses them for impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial investments has been incurred, the amount of the loss arising from the impairment of assets carried at amortized cost 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 impairment loss is recognized in the income statement.

The loans are written off following the application of all legal remedies available to collect receivables, implementation of all necessary procedures and after determining the amount of an impairment loss.

Financial assets available for sale

If there is objective evidence of impairment 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 recognized in the income statement – is removed from equity and recognized 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 recognized in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

Renegotiated loans are financial assets the repayment conditions of which were changed. Enforced renegotiation of the receivable occurs if the debtor is granted relief because the Bank estimates that the loss would probably happen if the relief were not granted. The Bank provides the relief that would not be otherwise granted, for economic or legal reasons related to the financial situation of the debtor. This particularly concerns the revision of the repayment plan, decreasing the interest rate, remission of the default interest, deferring repayments of the principal or payments of interest. In the case of enforced renegotiation, the receivable from the debtor is classified into the category of default loans and is monitored as risky in a special regime for a specified period.

(i) Sale and repurchase agreements

Financial assets sold on the basis of repurchase agreements ("repo") are disclosed separately as pledged assets. The settlement received for sale is treated as a received loan.

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

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

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

(j) Tangible and intangible assets

All tangible and intangible assets are stated at historical cost less accumulated depreciation and amortisation, respectively. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

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

Depreciation of tangible and intangible fixed assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Years
Motor vehicles	5
Furniture and fittings	2 – 10
Office equipment	2 – 3
Software	3 – 5

Improvements 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. Repair and maintenance costs are charged to the income statement when incurred.

Tangible fixed assets under construction are not depreciated until relevant assets are completed and put into use. Gains and losses on disposals are derived from their carrying amounts and proceeds from the sale and are included in the 'Other operating earnings' or 'Other operating expenses'.

The net book value of assets and useful lives is monitored, and adjusted if appropriate at each balance sheet date.

If the asset's carrying amount is greater than its estimated recoverable amount, the asset is provided for. The estimated recoverable amount is the higher of the asset's fair value including costs to sell and value in use.

(k) Leases

All leases entered into by the Bank are operating leases. Payments made under operating leases are charged to expenses on a straight-line basis over the period of the lease.

(l) Cash and cash equivalents

For the purposes of cash flow statement reporting, cash and cash equivalents comprise balances with less than three months' maturity and include current accounts, deposits in the bank of issue, zero-coupon government bonds, loans of other banks (except for export loans) and short-term securities.

(m) Employee benefits

The Bank governs the provision of employee benefits through internal guidelines (e.g. catering, additional pension insurance, interest-free loan for housing purposes or jubilee bonus).

The Bank provides additional pension insurance to its employees based on a defined contribution scheme which is structured according to the length of the employee's service. Contributions are charged to the income statement when paid.

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

(n) 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 at the balance sheet date and relate to the period in which the realisation of the deferred tax asset or settlement of the deferred tax liability are expected.

Principal temporary differences arise from cash flow hedges, allowances and the different tax treatments of fee income. Deferred tax related to the revaluation of items which are charged directly to equity is also charged directly to equity and subsequently recognized in the income statement together with the deferred gain or loss.

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

Income tax payable is recognized according to the applicable tax law in the Czech Republic, as an expense in the period in which taxable profits are generated.

(o) Financial liabilities at amortized cost - borrowings

The category of financial liabilities at amortized cost includes loans from banks, clients, debt securities in issue and other financial liabilities. Borrowings are initially recognized at the fair value of consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any differences between the anticipated value of future financial flows and fair value upon acquisition are reported using the effective interest rate method over the borrowing period.

(p) Share capital

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

(q) State subsidy

In accordance with Act No. 58/1995 Coll., the Bank receives subsidies from the state budget to cover losses resulting from financing operations.

The amount of the subsidy is calculated as the sum of:

- The recorded interest income from operating long-term supported financing (reduced by a fixed interest mark-up);
- Plus interest income from the current investment of available financial resources intended for supported financing;
- Minus actual interest expense from received financial resources;
- Minus relating fees paid by the Bank to acquire these resources;
- Minus allowances and provisions; and
- Minus the difference between income from financial derivative operations and costs related to these operations, foreign exchange rate differences and other costs that were recorded by the Bank to acquire the financial resources.

The income from the state subsidy is recognized in the income statement in the period in which the loss occurs. The title to the state subsidy is recognized in other receivables when the subsidy is virtually certain.

(r) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is likely that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(s) Guarantees and credit commitments

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

These estimates are determined based on experience from similar transactions and history of past losses. Any increase in the liability relating to guarantees is recognized in the income statement.

The Bank enters into contingent financial relationships by granting credit commitments. Credit commitments are included in the accounting records at the moment when all conditions precedent set in the credit contract have been met. Pursuant to the credit contract, the Bank is bound to provide a loan or drawing of the loan for the benefit of the debtor when conditions precedent have been met. The conditions precedent usually include the effective insurance policy concluded with EGAP. Before the conditions precedent have been met, signed credit contracts are recorded only in the information system of the Bank.

(t) Collateral and guarantees received

The Bank also receives guarantees issued by other banks and other collateral from other subjects as a means of security. An important component of contingent assets is the insurance of export credit risks arranged by the Bank or in favour of the Bank. The collateral is not recognized as assets; however, it is positively reflected in the measurement of loans.

3 / RISK MANAGEMENT

(a) Strategy in using financial instruments

The Bank funds export loans through the use of bond issues and long-term borrowings; short-term borrowings from the inter-bank market and client deposits are used as additional sources of funding. Free funds are invested by the Bank in state bonds or bank deposits. The Bank uses financial instruments to cover interest rate and foreign exchange differences.

The Bank deposits free funds in other banks at fixed rates and for various periods, and uses customers' deposits as loan collateral and as funds for export loans. The Bank seeks lending opportunities to commercial borrowers with an acceptable credibility. Such exposures involve not just loans and advances; the Bank also enters into guarantees and other commitments.

The Bank's strategy does not involve generating profit through trading with financial instruments to take advantage of movements in interest and exchange rates. For this reason, the Bank does not create any trading portfolio.

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 the income statement.

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

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

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

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

These securities were fully redeemed at agreed dates.

(CZK'm)	ISIN	Reclassification date	Fair value at date of reclassification	Profit recognised in equity at the reclassification date	Effective interest rate (%)
Hypo Real Estate Bank International	XS0226696648	1.7.2008	310	5	(0,77025)

(CZK'm)	2010	2009
Book value at 31 December	-	304
Fair value at 31 December	-	281
Fair value gain/loss recognized in equity at 31 December	-	1
Interest income recognized in the income statement for the period	4	10
Fair value loss in equity if not reclassified	-	(23)

(b) Credit risk

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to repay amounts in full when due. The credit exposure results from individual banking products provided under supported export financing and from the Bank's operations on money markets and capital markets.

The Bank has established a system of approval authorities, depending on the total limit for the client and risk categorisation.

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

Credit risk measurement

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

The rating models have been developed based on internally-produced methodologies. They combine statistical analysis with expert assessment by the risk manager. The Bank uses a seven-grade rating scale.

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, to geographical segments, concentration of industry or any other significant concentration with a common risk factor.

Exposure to a borrower or to an economically related group of borrowers is restricted by exposure limits set by the regulator (CNB regulation). For prudent reasons and in order to respect the regulation limits, the Bank reduces exposure to one borrower or to one

economically related group of borrowers by signal exposure limits, which are expressed as a defined percentage from exposure limits set by the CNB. The exposure to banks and brokers is further restricted by trading sub-limits for balance sheet and off-balance sheet items and sub-limits for the settlement risk. The significant concentration of credit risk to one borrower or group of borrowers, where the probability of the failure is influenced by the common risk factor (country of registered office, country of export or industry), is restricted by concentration limits. Actual exposures against limits are monitored daily. All limits are regularly reviewed at least once a year.

Maximum credit risk exposure before hedge instruments are applied

(CZK'm)							2010
	Gross exposure total			Used to ensure that exposures			Credit exposure
	Statement of financial position	Off-Balance Sheet	Exposure total	Statement of financial position	Off-Balance Sheet	Exposure total	
Exposures to central banks and governments	4 468	-	4 468	1 585	-	1 585	2 883
Exposures to institutions	3 617	479	4 096	1 345	84	1 429	2 667
Corporate exposure	51 175	16 801	67 976	48 675	15 721	64 396	3 580
Past due exposure	3 201	-	3 201	2 483	-	2 483	718
Short-term exposure to institutions, corporates	1 278	20	1 298	-	-	-	1 298
Other exposure	638	-	638	-	-	-	638
Total exposure	64 377	17 300	81 677	54 088	15 805	69 893	11 784

(CZK'm)							2009
	Gross exposure total			Used to ensure that exposures			Credit exposure
	Statement of financial position	Off-Balance Sheet	Exposure total	Statement of financial position	Off-Balance Sheet	Exposure total	
Exposures to central banks and governments	3 952	199	4 151	1 545	194	1 739	2 412
Exposures to institutions	6 307	354	6 661	2 529	-	2 529	4 132
Corporate exposure	35 479	16 288	51 767	32 382	14 946	47 328	4 439
Past due exposure	1 633	-	1 633	841	-	841	792
Short-term exposure to institutions, corporates	2 025	3	2 028	-	-	-	2 028
Other exposure	875	-	875	-	-	-	875
Total exposure	50 271	16 844	67 115	37 297	15 140	52 437	14 678

Exposure to credit risk is managed through regular analyses of the ability of borrowers and potential borrowers to meet principal and interest payment obligations.

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

Financial derivatives

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

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

Other financial assets

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

Loans

(CZK'm)	2010				2009			
	Loans and other receivables				Loans and other receivables			
	Banks	Customers	Undiffe- rentiated	Total	Banks	Customers	Undiffe- rentiated	Total
Neither past due nor impaired	2 102	50 253	-	52 355	3 234	34 931	-	38 165
Past due but not impaired	-	2 751	-	2 751	-	1 073	-	1 073
Impaired	270	3 006	-	3 276	291	2 069	-	2 360
	2 372	56 010	-	58 382	3 525	38 073	-	41 598
Less: allowance for impairment	(59)	(363)	-	(422)	(12)	(544)	-	(556)
Total loans	2 313	55 647	-	57 960	3 513	37 529	-	41 042
Other receivables neither past due nor impaired	1 826	-	70	1 896	2 025	-	143	2 168
Total loans and others receivables	4 139	55 647	70	59 856	5 538	37 529	143	43 210
Total undamaged to maturity	3 928	50 253	70	54 251	5 259	34 931	143	40 333
Total overdue undamaged	-	2 751	-	2 751	-	1 073	-	1 073
Total net impaired	211	2 643	-	2 854	279	1 525	-	1 804
	4 139	55 647	70	59 856	5 538	37 529	143	43 210

Loans neither past due nor impaired

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

A rating grade decrease may not mean that the loan was impaired. If a loan is collateralized in full using high-quality collateral it may not be impaired at all.

(CZK'm)	internal rating	2010				2009			
		Loans and other receivables				Loans and other receivables			
		Banks	Customers	Undiffe- rentiated	Total	Banks	Customers	Undiffe- rentiated	Total
High credit quality	2	788	44	-	832	655	-	-	655
Very good credit quality	3	457	2 182	-	2 639	1 087	242	-	1 329
Good credit quality	4	356	9 118	-	9 474	752	3 335	-	4 087
Quality requires attention	5	12	12 432	-	12 444	16	13 024	-	13 040
Vulnerable	6	489	6 845	-	7 334	637	5 938	-	6 575
Unsatisfactory	7	-	1 605	-	1 605	87	6 260	-	6 347
Project Financing	A-D	-	18 027	-	18 027	-	6 132	-	6 132
Total credits		2 102	50 253	-	52 355	3 234	34 931	-	38 165
Highest credit quality	1	179	-	-	179	156	-	-	156
High credit quality	2	1 056	-	-	1 056	1 593	-	-	1 593
Very good credit quality	3	590	-	-	590	276	-	7	283
Good credit quality	4	-	-	9	9	-	-	124	124
Quality requires attention	5	-	-	14	14	-	-	5	5
Vulnerable	6	1	-	-	1	-	-	1	1
Unsatisfactory	7	-	-	1	1	-	-	1	1
Project Financing	A-D	-	-	44	44	-	-	4	4
Non-rated	-	-	-	2	2	-	-	1	1
Other receivables total		1 826	-	70	1 896	2 025	-	143	2 168
Loans total		3 928	50 253	70	54 251	5 259	34 931	143	40 333

During 2010, the Bank continued in the increasing trend of financing “green field” projects, where a creditor is a newly established entity, which was set up as a special purpose vehicle (“SPV”). Due to their non-existent business history, these entities are automatically allocated the A – D rating, according to the quality of the project.

Loans past due but not impaired

(CZK'm)	2010						2009		
	Loans			Loans					
	Banks	Customers	Total	Banks	Customers	Total			
Past due by 30 days	-	406	406	-	356	356			
Past due 30 - 90 days	-	1 408	1 408	-	704	704			
Past due 90 - 180 days	-	937	937	-	13	13			
Total	-	2 751	2 751	-	1 073	1 073			
Fair value of collateral	-	2 509	2 509	-	739	739			

Impaired loans

(CZK'm)	2010						2009		
	Loans			Loans					
	Banks	Customers	Total	Banks	Customers	Total			
Individually impaired loans	270	3 006	3 276	291	2 069	2 360			
Less: allowance for impairment	(59)	(363)	(422)	(12)	(544)	(556)			
Total net impaired	211	2 643	2 854	279	1 525	1 804			
Fair value of collateral	208	2 354	2 562	290	1 250	1 540			

Renegotiated loans

(CZK'm)	2010						2009		
	Loans			Loans					
	Banks	Customers	Total	Banks	Customers	Total			
Loans to other banks	-	1 269	1 269	-	25	25			
Unexpended credit commitments to customers	-	60	60	-	-	-			

Loans and other receivables which were renegotiated and which would otherwise be past due or impaired.

Credit commitments and similar instruments

The primary purpose of these instruments is to ensure that funds are available to a customer, as required.

Credit commitments

Commitments to grant a credit represent unused portions of authorized credit lines in the form of loans. With respect to the credit risk on credit commitments, 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 grant credit are contingent upon customers maintaining specific credit standards.

Similar instruments

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 authorizing a third party to draw drafts from the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Geographic structure of loans

(CZK'm)	2010		2009	
	(CZK'm)	(%)	(CZK'm)	(%)
Russia	25 858	43.20	20 022	46.34
Other EU member states	9 852	16.46	2 786	6.46
Turkey	8 734	14.59	2 191	5.07
Georgia	5 632	9.41	5 821	13.47
Czech Republic	3 761	6.28	5 504	12.74
Ukraine	2 272	3.80	2 529	5.85
Azerbaijan	1 663	2.78	1 604	3.71
Montenegro	892	1.49	1 041	2.41
Belarus	511	0.85	384	0.89
Tunis	346	0.58	297	0.69
Cuba	211	0.35	279	0.64
United States of America	100	0.17	244	0.56
Uganda	16	0.03	17	0.04
Mongolia	8	0.01	16	0.04
China	-	-	386	0.89
Iran	-	-	87	0.20
Japan	-	-	2	-
Total	59 856	100.00	43 210	100.00

Industry structure of loans

(CZK'm)	2010		2009	
	(CZK'm)	(%)	(CZK'm)	(%)
Mineral wealth mining	6 615	11.05	1 098	2.54
Processing industry	14 063	23.50	12 515	28.96
Production and distribution electricity, gas, heat and air	23 855	39.85	13 442	31.11
Building industry	1 629	2.72	13	0.03
Wholesale and retail trade; repairs vehicle	645	1.08	1 163	2.69
Transport and warehousing	1 206	2.01	1 680	3.89
Accommodation, catering and hospitality	346	0.58	-	-
Banking and insurance industry	4 643	7.76	5 797	13.42
Administrative and supporting activity	5 192	8.67	5 898	13.65
Public administration, defence	1 662	2.78	1 604	3.71
Total	59 856	100.00	43 210	100.00

(c) Market risk

The Bank is exposed to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank applies sensitivity analyses to observe the breakdown of interest risk in individual currencies, in different periods and "Value at Risk" ("VAR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted, from which all market risks limits are derived. Actual utilisation of the limits is monitored on a daily basis by risk management. The Bank calculates VAR using a historic simulation model which calculates possible maximum loss based on a time series of risk factor vectors. The Bank has not been exposed to risks stemming from nonlinear instruments. The VAR is computed on the 99% level of confidence for the 10-day holding period. All VAR values are summarized in the table below.

VAR summary

(CZK'm)	12 months to 31 December 2010			12 months to 31 December 2009		
	Average	High	Low	Average	High	Low
VAR Hist. Simulation						
Interest rate risk	56,11	117,53	24,70	91,30	147,34	30,90
Foreign exchange risk	0,81	4,06	0,01	2,95	9,69	0,15
Total VAR	56,21	117,50	24,92	91,70	148,33	32,04

The back-testing of the VAR model is performed regularly. The following table shows the back-testing results as of 31 December 2010 and 2009:

Year	Number of observation	Reached reliability for interest risk	Reached reliability for currency risk	Number of cases with higher loss for interest risk	Number of cases with higher loss for currency risk
		(%)	(%)		
2009	249	99,60	100,00	1	-
2010	250	99,60	99,60	1	1

The Bank conducts quarterly stress testing of the impact of material changes in financial markets on the level of market exposure. Within the sensitivity analyses, the material fluctuation scenarios and changes in interest curves and monetary exchange rates are tested; for the VAR, historic scenarios are tested using the data from the financial crisis in autumn 2008. Given that the Bank's portfolio of instruments remeasured at fair value through the income statement is not significant, the impact on the Bank's income statement is not assessed as part of the stress tests.

(d) Currency risk

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

The table below summarizes the Bank's exposure to exchange rate risk as of 31 December 2010 and 2009. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency. The net off-balance sheet position represents exposure to the currency risk stemming from foreign currency derivative financial instruments, which are principally used to reduce the Bank's on-balance sheet currency risk.

Concentrations of assets, liabilities and off-balance sheet items

(CZK'm)	CZK	USD	EUR	Other	Total
At 31 December 2010					
ASSETS					
Cash and balances with central bank	642	-	-	-	642
Financial instruments held for trading	62	-	-	-	62
Financial instruments available-for-sale	1 748	-	-	-	1 748
Loans and receivables	1 886	13 554	44 414	2	59 856
of which: from banks	1 201	171	2 766	2	4 140
of which: from other clients	644	13 375	41 627	-	55 646
of which: undifferentiated	41	8	21	-	70
Financial instruments held-to-maturity	571	-	1 254	-	1 825
Hedging derivatives	69	-	12	-	81
Equipment	39	-	-	-	39
Intangible assets	78	-	-	-	78
Other assets, including tax	427	1	35	1	464
Total assets	5 522	13 555	45 715	3	64 795
LIABILITIES					
Financial liabilities held for trading	61	-	-	-	61
Financial liabilities in amortized costs	3 937	9 887	44 866	-	58 690
of which: to banks	-	2 063	3 986	-	6 049
of which: to other clients	3 836	28	1 800	-	5 664
of which: undifferentiated	101	10	14	-	125
of which: issued bonds	-	7 786	39 066	-	46 852
Hedging derivatives	-	339	1 669	-	2 008
Other liabilities, including tax	68	4	45	-	117
Total liabilities	4 066	10 230	46 580	-	60 876
Net on-balance sheet items	1 456	3 325	(865)	3	3 919
Currency forward	3 932	(3 555)	(379)	-	(2)
Net currency position	5 388	(230)	(1 244)	3	3 917
At 31 December 2009					
Total assets	5 325	10 642	33 742	24	49 733
Total liabilities	6 806	10 831	29 137	6	46 780
Net on-balance sheet position	(1 481)	(189)	4 605	18	2 953
Currency forward	5 763	80	(4 314)	-	1 529
Net currency position	4 282	(109)	291	18	4 482

(e) Interest rate risk

The Bank is exposed to interest rate risk as its interest bearing assets and liabilities have different re-fixing or maturity dates. For floating rate instruments, the Bank is exposed to basic risks, which arise from the differences in methods of adjusting individual types of interest rates, primarily LIBOR, EURIBOR and possibly PRIBOR. Interest rate is managed using the interest rate sensitivity analysis and VAR for which a set of limits is defined to mitigate potential exposure. Interest rate risk management aims at minimising the sensitivity of the Bank to changes in interest rates.

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

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

(h) Liquidity risk

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

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

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

Stated values are based on non-discounted cash flows.

Maturity of non-derivative liabilities

(CZK'm)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
31 December 2010						
Due to other banks	367	377	3 504	2 027	-	6 275
Due to customers	2 752	933	117	2 072	30	5 904
Debt securities in issue	2 671	73	2 834	30 444	17 010	53 032
Total liabilities	5 790	1 383	6 455	34 543	17 040	65 211
Loan commitments	1 650	2 021	6 877	3 046	-	13 594
31 December 2009						
Due to other banks	253	-	4 898	2 219	-	7 370
Due to customers	4 170	203	18	66	85	4 542
Debt securities in issue	122	66	6 459	23 398	7 627	37 672
Total liabilities	4 545	269	11 375	25 683	7 712	49 584
Loan commitments	2 903	3 850	6 629	1 268	-	14 650

Maturity of derivative financial liabilities

Derivatives to be settled in net value include liabilities of interest swaps and forward rate agreements ("FRA").

(CZK'm)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
31 December 2010						
Derivatives held for trading	-	(1)	(1)	(4)	-	(6)
Hedging derivatives	(28)	(176)	(620)	(1 208)	3	(2 029)
31 December 2009						
Derivatives held for trading	-	(1)	-	(3)	(1)	(5)
Deriváty zajišťovací	(27)	(178)	(462)	(955)	62	(1 560)

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

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

(CZK'm)	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
31 December 2010						
Foreign exchange derivatives						
outflow	(2 412)	(206)	-	-	-	(2 618)
inflow	2 393	208	-	-	-	2 601
Cross currency swaps						
outflow	-	(10)	(7)	(1 822)	-	(1 839)
inflow	-	16	8	1 842	-	1 866
Total outflow	(2 412)	(216)	(7)	(1 822)	-	(4 457)
Total inflow	2 393	224	8	1 842	-	4 467
31 December 2009						
Foreign exchange derivatives						
outflow	(344)	-	(515)	-	-	(859)
inflow	342	-	516	-	-	858
Cross currency swaps						
outflow	-	(7)	(3 978)	-	-	(3 985)
inflow	-	21	5 525	-	-	5 546
Total outflow	(344)	(7)	(4 493)	-	-	(4 844)
Total inflow	342	21	6 041	-	-	6 404

(g) Fair values of financial assets and liabilities

The following table summarizes 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) only includes incurred losses at the balance sheet date.

(CZK'm)	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Loans to other banks	4 139	5 538	4 449	5 277
Loans to customers	55 647	37 529	52 545	33 591
Securities held-to-maturity	1 825	1 799	1 709	1 722
FINANCIAL LIABILITIES				
Due to other banks	6 049	7 056	6 164	6 959
Due to customers	5 664	4 360	5 583	4 404
Debt securities in issue	46 852	33 361	48 063	34 545
Loan commitments given	13 594	14 650	28	8

Loans to banks

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

Loans to customers and held-to-maturity securities

The estimated fair value of loans and held-to-maturity securities represents the discounted amount of estimated future cash flows. Expected cash flows are discounted at prevailing money-market interest rates for debts and securities with similar credit risk and remaining maturity considering credit spreads of relevant financial instruments at the year-end, including existing credits security. The methodology for the calculation of fair values of loans changed as compared to 2009. For this reason, comparative information on the 2009 fair value has been restated on a basis consistent with the current period.

Due to banks and due to clients

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

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

Debt securities in issue

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

Fair value recognized in the statement of financial position

The following table provides an analysis of the financial instruments which are measured at fair value after initial recognition and which are divided into levels 1 and 2 depending on the extent to which fair value can be identified or verified:

- Fair value measurements at level 1 are valuations that are based on (unadjusted) quoted prices for the same assets or liabilities in active markets; and
- Fair value measurements at level 2 are valuations that are based on inputs other than quoted prices used at level 1; this information can be obtained for an asset or liability directly (i.e. prices) or indirectly (i.e. data derived from the prices).

(CZK'm)	2010		2009	
	Level 1	Level 2	Level 1	Level 2
Financial instruments held for trading	-	62	-	1 549
Financial instruments available-for-sale	1 646	102	1 852	132
Hedging derivatives with positive fair value	-	81	-	104
Total	1 646	245	1 852	1 785
Financial liabilities held for trading	-	61	-	20
Hedging derivatives with negative fair value	-	2 008	-	1 558
Total	-	2 069	-	1 578

The Bank has no assets or liabilities carried at fair value at level 3, ie measurements based on valuation techniques that use information on assets or liabilities and are not derived from observable market data (non-verifiable inputs).

(h) Capital management

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

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

When calculating risk weighted exposures, the Bank considers methods of decreasing credit risk such as pledging property as collateral (financial collateral) or individual securing of exposures (insurance and other guarantees).

As of 1 January 2008, the Bank created a system of internally set capital (SVSK) in order to fulfil its legal obligations in the area of planning and continuously maintaining internally set capital in the amount, structure and distribution, so that the risks, which could threaten the Bank, are sufficiently covered.

SVSK is established to reflect the Bank's nature of a specialized bank institution directly and indirectly owned by the state intended to provide officially supported financing and related services pursuant to Act 58/1995 Coll. and with respect to the scope and complexity of activities resulting from operating officially supported financing and related services and corresponding risks.

The Board of Directors approved the SVSK concept in the form of a capital management strategy which defines the key goals, principles, parameters and limits of SVSK, including the methods used to evaluate and measure each risk undertaken by the Bank.

Quantified risks within SVSK are assessed in the form of internally set capital needs. Other risks within SVSK are covered by qualitative measures in risk management and organisation of processes and controls (code of ethics, communication policy, etc.).

In 2010 and 2009 the Bank met all regulatory requirements for capital adequacy.

4 / CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Impairment losses on loans

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

(b) Impairment of available-for-sale financial assets

When available-for-sale assets are impaired, the accumulated profit or loss recognized in equity is reported through the profit or loss.

(c) State subsidy

When recognizing a state subsidy taking into account the principles of Act No. 58/1995 Coll., which was designed to support Czech export in general rather than to promote the Bank as an entity owned by the state, the Bank assessed the subsidy in accordance with IAS 20 as a subsidy reported in income compensating some expenses rather than a transaction with the owner with an impact on equity.

(d) Income taxes

The Bank is subject to Czech income tax in compliance with effective regulations. The Bank recognizes liabilities in the amount of anticipated tax assessments based on estimates. Where the final tax liability differs from the anticipated amounts the resulting differences have an impact on the tax expense and the deferred tax liability in the period in which the assessment is made.

5 / OPERATING SEGMENTS

Separate set (circle) 001 includes operating activities, financing without the right to a grant and other related activities in accordance with banking licenses and the resulting income and expenses. All these activities are carried out under market conditions, without any direct links to the state budget.

Separate set (circle) 002 includes all activities relating to supported financing which are eligible to a subsidy from the state budget, and the resulting income and expenses.

(CZK'm)	2010			2009		
	circle 001	circle 002	Total	circle 001	circle 002	Total
Interest and similar income	696	2 191	2 887	587	1 424	2 011
Interest expense and similar charges	(29)	(2 726)	(2 755)	(51)	(2 118)	(2 169)
Impairment losses on loans	(173)	3	(170)	(106)	(70)	(176)
Profit before income tax	217	-	217	168	-	168
Income tax expense	(146)	-	(146)	(74)	-	(74)
Profit for the year	71	-	71	94	-	94
Loans and receivables	4 383	55 473	59 856	5 473	37 737	43 210
Total assets	7 548	57 247	64 795	8 454	41 279	49 733
Financial liabilities at amortized cost and guaranteed liabilities	4 074	54 616	58 690	3 942	41 013	44 955
Total liabilities and equity	9 325	55 470	64 795	8 197	41 536	49 733

Providing supported financing is broken down into funding linked to the state budget and without ties to the state budget. The Bank predominantly assesses performance of its operating segments according to interest income, interest expense, impairment losses on loans and the amount of granted/received loans.

6 / NET INTEREST INCOME

(CZK'm)	2010	2009
Interest income from loans to banks	88	200
Interest income from loans to clients	2 592	1 570
Interest income from interbank deposits	14	31
Interest income from current accounts with other banks	1	1
Interest income from non-tradeable securities	5	11
Interest income from loans and receivables	2 700	1 813
Interest income from CNB loans - repos	4	6
Interest income from available-for-sale securities	56	63
Interest income from financial investments held-to-maturity - securities	32	48
Gains on hedging interest derivative instruments	95	81
Other interest earnings	187	198
Interest and similar income	2 887	2 011
Interest expense from received bank credits	(90)	(206)
Interest expense from government	(82)	-
Interest expense from term deposits	(22)	(50)
Interest expense from checking accounts	(2)	(4)
Interest expense from interbanking operations	(4)	(3)
Interest expense from repos with banks	(16)	(34)
Interest expense from issued bonds	(1 404)	(1 384)
Interest expense from financial liabilities in amortized costs	(1 620)	(1 681)
Gains (loss) on hedging interest derivative instruments	(1 134)	(485)
Other interest expense - collateral	(1)	(3)
Interest expense and similar charges	(2 755)	(2 169)
Net interest income	132	(158)

Interest income for 2010 includes outstanding accrued interest on impaired loans in the amount of CZK 74 million (2009: CZK 53 million) as of 31 December 2010.

7 / FEE AND COMMISSION INCOME

(CZK'm)	2010	2009
Fees and commissions from clearing and settlement	1	1
Fees and commissions from credit activities	9	-
Fees and commissions from payments	16	13
Fees from mandatory and other contracts	-	1
Fees and commissions from guarantees	25	15
Fee and commissions income	51	30
Fees for received loans from banks	(8)	(1)
Fee for security operations	(1)	(1)
Fees and commissions for consulting and advisory services	(1)	-
Fees and commissions for rating	(3)	(3)
Fee and commissions expense	(13)	(5)
Net fee and commission income	38	25

8 / NET PROFIT FROM FINANCIAL OPERATIONS

Amounts due from the state budget and income from financial operations

(CZK'm)	2010	2009
STATE SUBSIDY TO STATE EXPORT PROMOTION under international rules (OECD Consensus)		
At 1 January	325	100
Receipt of state subsidy	(742)	(471)
Increase in receivables from state budget	492	696
At 31 December	75	325

Profit from financial operations

(CZK'm)	2010	2009
Subsidy income	492	696
Gains from operations with securities	3	(2)
Realized gains from financial assets and liabilities not carried at fair value through profit	495	694
Costs of derivative transactions with interest rate instruments	(6)	(5)
Income from derivative transactions with interest rate instruments	6	5
Costs of derivative transactions with currency instruments	(316)	(258)
Income from derivative transactions with currency instruments	686	483
Net trading income/(expense)	370	225
Foreign exchange gains/(losses)	(313)	(139)
Net profit from financial operations, including state subsidy	552	780

9 / OPERATING COSTS

(#)		2010	2009
Number of employees		149	140
Average recorded number of employees		144	134
<i>of which: Board and Supervisory Board</i>		8	8
(CZK'm)	Note	2010	2009
Salaries and emoluments		(148)	(122)
Social and health security costs		(41)	(37)
Other staff costs		(14)	(12)
Staff costs		(203)	(171)
Administrative expenses		(57)	(50)
Operating lease rentals		(19)	(19)
Total administrative expenses		(279)	(240)
Software amortisation	18	(4)	(3)
Depreciation of long term tangible assets		(13)	(10)
Depreciation and amortization		(17)	(13)
Contribution of the Deposit Insurance Fund		(2)	(3)
Legal costs and control activities		(14)	(2)
Advice		(6)	(6)
Cost of recovery		(36)	(36)
Other		(1)	(1)
Other operating expenses		(59)	(48)
Dissolution (creation) of reserves ²²		14	(5)
Total operating costs		(341)	(306)

In 2010, the salaries and bonuses paid to the members of the Board of Directors and the Supervisory Board amounted to CZK 33 million (2009: CZK 18 million).

10 / IMPAIRMENT LOSSES ON LOANS

(CZK'm)	2010	2009
Creation of allowances for receivables to banks	(113)	(16)
Creation of allowances for receivables to clients	(937)	(507)
Allowances for losses on loans to banks	64	4
Utilisation and release of allowances on loans to customers	1 186	195
Receivables from clients written off	(878)	(95)
Claims from credit insurance on bad debts to banks	56	-
Claims from credit insurance on bad debts to customers - received indemnity	452	242
Claims from credit insurance on bad debts to customers - to other to ensure	-	1
Impairment losses on loans	(170)	(176)

The year-on-year increase in the costs of creating allowances is due to the increased amount of risky receivables. The principal reason relates to the adverse impact of the global and economic developments on certain territories which are significant in terms of the distribution of the Bank's loan portfolio as well as Czech companies focused on export.

11 / INCOME TAX

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

(CZK'm)	Note	2010	2009
Income tax payable		(145)	(108)
Deferred tax	23	(1)	34
Income tax expense		(146)	(74)
Profit before taxation		217	168
Expected tax 19% (2009: 20%)		(41)	(34)
Effects of tax rate reduction (2009: 20%; 2010: 19%)		-	(1)
Recycled from revaluation reserve on realisation		-	-
Effects of non-taxable expenses		(309)	(88)
Effects of non-taxable income		203	48
Other		1	1
Income tax expense		(146)	(74)

Tax non-deductible expenses and income predominantly include the creation and release of tax non-deductible allowances for receivables from clients amounting to CZK 144 million in 2010 2009: CZK -274 million).

12 / CASH AND CASH EQUIVALENTS

For cash flow reporting purposes, cash and cash equivalents include the following balances with the maturity period shorter than three months from the date of acquisition.

(CZK'm)	Note	2010	2009
Cash and balances with central banks	13	642	378
Placements with other banks	14	1 826	2 025
Total cash and cash equivalents		2 468	2 403

13 / CASH AND BALANCES WITH THE CENTRAL BANK

(CZK'm)	Note	2010	2009
Reverse repo transactions included in cash equivalents		600	300
Mandatory reserve deposits with central bank		42	78
Cash and balances with central bank	12	642	378

Minimum obligatory reserves are set up as 2% of deposits from non-banking clients which have a maturity shorter than 2 years, recorded at the end of the month preceding the month in which the relevant period begins. As these balances are available on a daily basis, these are included in cash and cash equivalents.

14 / LOANS AND RECEIVABLES

(CZK'm)	2010	2009
Bonds not quoted in an active market issued by banks	-	405
Total bonds not quoted in an active market	-	405
Loans to banks	4 139	5 133
Loans to other entities	55 647	37 529
Other undifferentiated receivables	70	143
Loans and receivables	59 856	42 805
Total loans and receivables	59 856	43 210

Remaining maturity:

Current loans to customers	3 906	6 543
Non-current loans to customers	55 950	36 667

Loans to banks

(CZK'm)	Note	2010	2009
Current accounts with other banks		28	115
Placements with other banks due within 3 months		1 798	1 910
Included in cash equivalents	12	1 826	2 025
Bonds not quoted in an active market		-	405
Loans to other banks		2 372	3 120
Loans and advances to credit institutions without compromising total		4 198	5 550
Allowance for loan impairment		(59)	(12)
Total loans to banks		4 139	5 538

Remaining maturity:

Current loans to banks	2 697	3 041
Non-current loans to banks	1 442	2 497

Allowances for impairment on loans to banks

(CZK'm)	2010	2009
Balance at 1 January	(12)	-
Additions to allowance	(112)	(16)
Release of allowance	65	4
Net movement in allowances	(47)	(12)
Balance at 31 December	(59)	(12)

Loans to clients

(CZK'm)	2010	2009
LOANS TO CORPORATE ENTITIES		
Pre-export funding	1 402	2 501
Export funding	39 809	25 849
Investment	14 103	7 756
Operating	528	583
For bank guarantee	1	575
For factoring	167	809
Loans and advances to customers without compromising total	56 010	38 073
Allowance for loan impairment	(363)	(544)
Total loans to corporate entities	55 647	37 529
Remaining maturity:		
Current loans to customers	1 138	3 359
Non-current loans to customers	54 509	34 170

Allowances for impairment on loans to clients

(CZK'm)	2010	2009
At 1 January	(544)	(222)
Additions to allowance	(937)	(507)
Utilisation for write offs	896	94
Release of allowance	290	101
Net movement in allowances	249	(312)
Foreign exchange differences	(68)	(10)
At 31 December	(363)	(544)

Other undifferentiated receivables

(CZK'm)	2010	2009
Receivables from re invoicing of incurred expenses	29	142
Receivable from insurance with EGAP	39	-
Personnel loans from social fund	1	1
Operating prepayments	1	-
Total other undifferentiated receivables	70	143
Remaining maturity:		
Current debts	70	143
Non-current debts	-	-

The original cost reimbursement is based on the contractual documentation of business cases. This is the cost incurred by the Bank in connection with the business case, especially on legal costs, insurance, control, etc. These costs are charged to the client for payment in line with the contract.

The Bank has created no allowances for undifferentiated receivables.

15 / DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the derivative instruments exclusively for hedging. For each derivative, it is decided whether hedging accounting should be applied to it in terms of IAS 39.

The Bank uses these derivative financial instruments:

Derivatives total

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2010				
Derivatives held for trading	4 671	4 672	62	61
Hedging derivatives	35 679	35 679	81	2 008
Total derivatives	40 350	40 351	143	2 069
Remaining maturity:				
Short-term derivatives held for trading	2 651	2 668	28	45
Long-term derivatives held for trading	2 020	2 004	34	16
Short-term hedging derivatives	3 817	3 817	0	82
Long-term hedging derivatives	31 862	31 862	81	1 926
31 December 2009				
Deriváty k obchodování	6 508	4 979	1 549	20
Deriváty zajišťovací	35 530	35 530	104	1 558
Deriváty celkem	42 038	40 509	1 653	1 578
Remaining maturity:				
Short-term derivatives held for trading	6 358	4 829	1 546	15
Long-term derivatives held for trading	150	150	3	5
Short-term hedging derivatives	3 362	3 362	49	4
Long-term hedging derivatives	32 168	32 168	55	1 554

Derivatives held for trading

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2010				
FOREIGN EXCHANGE DERIVATIVES				
Currency swaps	2 601	2 618	28	45
INTEREST RATE DERIVATIVES				
Interest rate swaps	240	240	4	6
Cross-currency interest rate swap	1 780	1 764	30	10
Forward rate agreement	50	50	-	-
Total derivatives held for trading	4 671	4 672	62	61
31 December 2009				
FOREIGN EXCHANGE DERIVATIVES				
Currency swaps	342	344	-	3
Forward	516	515	14	12
INTEREST RATE DERIVATIVES				
Interest rate swaps	150	150	3	5
Cross-currency interest rate swap	5 500	3 970	1 532	-
Total derivatives held for trading	6 508	4 979	1 549	20

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

Hedging fair value derivatives

In accordance with the strategy in the area of managing the interest structure of assets and liabilities, the Bank executed interest rate swaps, thus hedging the fair value of part of the interest payments from received loans in CZK and part of the interest payments of the EUR or USD loan provided (it transfers the fixed interest payments to the variable ones). The notional amount of the principals of newly concluded interest rate swaps is 1,748 million for CZK swaps, 100 million for EUR swaps and 30 million for USD swaps.

Testing hedging effectiveness indicated that hedging is highly effective and complies with the requirements of IAS 39.

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2010				
INTEREST RATE DERIVATIVES				
Interest rate swaps	11 722	11 722	81	355
Total hedging derivatives	11 722	11 722	81	355
31 December 2009				
INTEREST RATE DERIVATIVES				
Interest rate swaps	11 105	11 105	80	79
Total hedging derivatives	11 105	11 105	80	79

Hedging cash flow derivatives

The Bank arranged interest rate swaps in order to hedge cash flows from future liabilities of the Bank (loans subject to variable interest and bond issues with variable coupons). Through interest swaps it transfers the variable interest payments of the Bank's funds to fixed ones, thus hedging the cash flows of the financial liabilities of the Bank. In 2010, a new swap in the notional value of USD 25 million was entered into.

Testing the hedging effectiveness showed that hedging is highly effective and it complies with the requirements of IAS 39. The effective part of the change of fair value of hedging interest rate swaps is recognized in equity. As of 31 December 2010, the Bank recognized a loss of CZK 373 thousand from the ineffective part of the hedging.

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2010				
INTEREST RATE DERIVATIVES				
Interest rate swaps	23 957	23 957	0	1 653
Total hedging derivatives	23 957	23 957	0	1 653
31 December 2009				
INTEREST RATE DERIVATIVES				
Interest rate swaps	24 425	24 425	24	1 479
Total hedging derivatives	24 425	24 425	24	1 479

16 / FINANCIAL INSTRUMENTS AVAILABLE-FOR-SALE AND HELD-TO-MATURITY

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

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

Sorting by listing status

(CZK'm)	2010	2009
	A+ to A-	
SECURITIES AVAILABLE-FOR-SALE		
- listed	1 646	1 852
- unlisted	102	132
Total	1 748	1 984
SECURITIES HELD-TO-MATURITY		
- listed	472	370
- unlisted	99	105
	571	475
REPURCHASE AGREEMENT - SECURITIES HELD-TO-MATURITY		
- listed	1 254	-
- unlisted	-	1 324
	1 254	1 324
Total	1 825	1 799

Pledged assets represent securities used in standard repurchase agreements.

Sorted by residual maturity

(CZK'm)	2010	2009
	A+ to A-	
SECURITIES AVAILABLE-FOR-SALE		
- short term	295	416
- long term	1 453	1 568
Total	1 748	1 984
SECURITIES HELD-TO-MATURITY		
- short term	145	77
- long term	426	398
	571	475
REPURCHASE AGREEMENT - SECURITIES HELD-TO-MATURITY		
- short term	-	-
- long term	1 254	1 324
	1 254	1 324
Total	1 825	1 799

In 2010 and 2009 no impairment of investment securities was noted.

17 / TANGIBLE FIXED ASSETS

(CZK'm)	Office equipment	Motor vehicles	Unfinished investment	Total
COST				
At 1 January 2009	52	7	1	60
Additions	6	2	16	24
Disposals	(1)	(1)	(9)	(11)
At 31 December 2009	57	8	8	73
Additions	36	-	32	68
Disposals	(1)	(3)	(36)	(40)
At 31 December 2010	92	5	4	101
ACCUMULATED DEPRECIATION				
At 1 January 2009	(42)	(4)	-	(46)
Additions	(8)	(1)	-	(9)
Disposals	1	1	-	2
At 31 December 2009	(49)	(4)	-	(53)
Additions	(12)	(1)	-	(13)
Disposals	2	2	-	4
At 31 December 2010	(59)	(3)	-	(62)
CLOSING NET BOOK AMOUNT				
At 31 December 2009	8	4	8	20
At 31 December 2010	33	2	4	39

18 / INTANGIBLE FIXED ASSETS

(CZK'm)	2010	2009
SOFTWARE		
At 1 January		
Costs	121	100
Accumulated amortisation	(96)	(93)
Opening net book amount	25	7
Additions	70	24
Disposals	(13)	(3)
Accumulated amortisation	(4)	(3)
At 31 December		
Cost	178	121
Accumulated amortisation	(100)	(96)
Closing net book amount	78	25

19 / OTHER ASSETS

(CZK'm)	2010	2009
Receivable from services provided to clients relating to business	8	16
Receivables - state subsidy	76	325
Prepayments and accrued income	43	24
Other receivables	6	3
Total other assets	133	368
Remaining maturity:		
Current other assets	92	368
Non-current other assets	41	-

20 / FINANCIAL LIABILITIES HELD AT AMORTIZED COST

Total financial liabilities held at amortized cost

(CZK'm)	2010	2009
Deposits and other financial liabilities at amortized cost due to banks	6 049	7 056
Deposits and other financial liabilities at amortized cost due to clients	5 664	4 360
Other undifferentiated financial liabilities at amortized cost	125	178
Deposits, loans and other financial liabilities at amortized cost	11 838	11 594
Issued bonds at amortized cost	46 852	33 361
Total financial liabilities at amortized cost	58 690	44 955

Remaining maturity:

Current	12 723	13 135
Non-current	45 967	31 820

To banks

(CZK'm)	2010	2009
Short term deposits received	868	1 825
Borrowings	5 181	5 231
Total financial liabilities at amortized cost due to banks	6 049	7 056

Type of rate:

Fixed interest rates	6 049	4 473
Variable interest rates	-	2 583

Remaining maturity:

Current	4 161	3 040
Non-current	1 888	4 016

To clients

(CZK'm)	2010	2009
Current accounts	1 650	517
Term deposits	2 016	3 651
Escrow accounts	153	167
Loans received from clients	1 830	-
Other short term liabilities	15	25
Total financial liabilities at amortized cost due to clients	5 664	4 360

Type of rate:

Fixed interest rates	5 314	3 747
Variable interest rates	110	146
Interest free deposits	240	467

Remaining maturity:

Current	3 714	4 211
Non-current	1 950	149

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

Debt securities in issue

(CZK'm)				31 December 2010		31 December 2009	
Currenc	Issued	Maturity	Rate		(%)		(%)
CZK	11 July 2000	11 July 2010	FIX	-	-	5 706	6,950
EUR	23 May 2007	23 May 2016	FLOAT	3 085	1,050	3 211	0,725
EUR	23 May 2007	23 May 2014	FLOAT	1 273	1,040	1 330	0,715
EUR	13 August 2007	13 August 2012	FIX	1 275	4,682	1 346	4,682
EUR	23 November 2007	23 November 2012	FIX	1 258	4,354	1 329	4,354
EUR	23 November 2007	23 November 2017	FIX	1 258	4,555	1 329	4,555
EUR	31 January 2008	31 January 2011	FIX	2 595	3,860	2 740	3,860
EUR	13 June 2008	13 June 2013	FLOAT	1 266	1,409	1 328	1,147
EUR	15 September 2008	15 September 2011	FLOAT	1 767	1,318	1 859	1,220
EUR	15 September 2008	15 September 2012	FLOAT	1 268	1,338	1 364	5,385
EUR	17 March 2009	17 March 2012	FLOAT	3 712	1,139	3 836	1,040
USD	24 April 2009	29 April 2014	FLOAT	2 886	2,788	2 796	2,781
EUR	17 August 2009	17 August 2014	FLOAT	1 279	2,653	1 338	2,621
USD	22 October 2009	22 October 2014	FIX	1 320	4,015	1 293	4,015
USD	22 October 2009	22 October 2015	FIX	1 320	4,375	1 294	4,375
USD	22 October 2009	22 October 2016	FIX	1 321	4,687	1 294	4,687
EUR	15 April 2010	15 April 2015	FLOAT	3 800	1,839	-	-
EUR	15 April 2010	15 April 2020	FIX	3 869	4,195	-	-
USD	25 June 2010	25 June 2014	FLOAT	939	1,502	-	-
EUR	8 July 2010	8 July 2013	FLOAT	5 050	1,835	-	-
EUR	12 July 2010	12 July 2017	FIX	3 809	3,850	-	-
EUR	8 December 2010	8 December 2016	FLOAT	2 502	1,706	-	-
				46 852		33 361	

Remaining maturity:

Current	4 723	5 706
Non-current	42 129	27 655

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

All other bonds outstanding issues are listed on the Luxemburg Stock Exchange.

21 / OTHER LIABILITIES

(CZK'm)	2010	2009
Accruals and deferrals	49	35
Due to customers - outstanding payment the current account	-	126
Miscellaneous payables	1	1
Total other liabilities	50	162

Remaining maturity:

Current other liabilities	41	162
Non-current other liabilities	9	-

22 / PROVISIONS

(CZK'm)	Note	2010	2009
PROVISION FOR EMPLOYMENT BENEFITS			
At 1 January		2	2
Additions to provision		1	-
Usage of provision		0	0
At 31 December		3	2
PROVISION FOR GUARANTEES GIVEN			
	0		
At 1 January		15	15
Additions to provision		-	58
Release of reserves		(15)	(53)
Exchange effects	9	-	(5)
At 31 December		0	15
Total provisions		3	17

23 / DEFERRED INCOME TAXES

Deferred income tax for 2010 is calculated using a tax rate for years of expected use of the deferred tax in the amount of 19% for 2011 and the following years.

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

(CZK'm)	Note	2010	2009
At 1 January		296	236
Deferred fee and interest income – change in amount		-	(1)
Deferred tax on tangible and intangible assets		(2)	-
Tax non-deductible creation of allowances for losses on loans		1	35
Total income statement charge	11	(1)	34
AVAILABLE-FOR-SALE SECURITIES			
- fair value remeasurement reported in revaluation reserve	25	-	(6)
- changes at fair value of available-for-sale securities	25	(1)	1
CASH FLOW HEDGES			
- fair value remeasurement	25	(96)	(41)
- fair value changes realised to income statement	25	133	72
At 31 December		331	296

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

(CZK'm)	2010	2009
DEFERRED INCOME TAX LIABILITIES		
Accelerated tax depreciation	(2)	-
Available-for-sale securities	(5)	(4)
	(7)	(4)
DEFERRED INCOME TAX ASSETS		
Deferred fee and interest income	2	2
Tax non-deductible creation of allowances for losses on loans	52	51
Cash flow hedges	284	247
	338	300
Net deferred income tax assets/(liabilities)	331	296

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

24 / SHARE CAPITAL

Under Act No. 58/1995 Coll., at least two thirds of the Bank's shares must be owned by the Czech state. The state's share rights are executed by four ministries (Note 1). The remaining shares must be owned by EGAP.

(CZK'm)	Number of shares (#)	Nominal value per share	Total nominal value	Share %
31 December 2010				
Czech state	2 200	1	2 200	
Czech state	100	10	1 000	
Czech state total ¹⁾	2 300		3 200	80.0
EGAP	300	1	300	
EGAP	50	10	500	
EGAP total	350		800	20.0
Total	2 650		4 000	100.0
31. prosince 2009				
Czech state	1 150	1	1 150	
Czech state	100	10	1 000	
Czech state total ¹⁾	1 250		2 150	72.9
EGAP	300	1	300	
EGAP	50	10	500	
EGAP	350	10	800	27.1
Total	1 600		2 950	100.0

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

25 / VALUATION DIFFERENCES

(CZK'm)	Note	2010	2009
AVAILABLE-FOR-SALE SECURITIES			
At 1 January		20	-
Net gains / (losses) from changes in fair value		(3)	27
Deferred income taxes	23	-	(6)
Reclassification cumulative profit/(-) loss on proceeds from sale of securities available-for-sale to profit and loss		3	(2)
Deferred income taxes transfer from equity to profit and loss	23	(1)	1
Total change		(1)	20
At 31 December		19	20
CASH FLOW HEDGES			
At 1 January		(1 052)	(863)
Net gains / (losses) from changes in fair value		510	142
Deferred income taxes	23	(96)	(41)
Amount charged to income statement from equity		(701)	(362)
Deferred income taxes transfer from equity to profit and loss	23	133	72
Total change		(154)	(189)
At 31 December		(1 206)	(1 052)
Revaluation Total		(1 187)	(1 032)

26 / RESERVES**Statutory reserve**

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

Five percent of net profit shall be allocated to the statutory reserve until the level of 20% of share capital is achieved. This reserve can be used exclusively to cover losses.

The share capital of the Bank was increased by CZK 1,050 million to CZK 4,000 million during 2010. The statutory reserve is to be gradually increased up to 20% of the share capital from the profit distribution.

Export risk reserve

The export risk reserve is set aside from retained earnings to cover increased non-hedged credit risk associated with the operation of supported financing.

27 / CONTINGENT LIABILITIES AND COMMITMENTS

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

Provided credit commitments are guarantees

(CZK'm)	2010	2009
CREDIT COMMITMENTS		
Non-payment guarantee ²⁾	3 296	1 831
Irrevocable commitments	13 594	14 650
Guarantees from confirmed letter of credit	3	3
Total	16 893	16 484

Received collateral and pledges

(CZK'm)	2010	2009
Payment guarantees	5 002	3 550
Non-payment guarantees ²⁾	6	2
Total accepted guarantees	5 008	3 552
Insurance with state subsidy	65 483	48 472
Insurance without state subsidy	75	367
Total accepted insurance	65 558	48 839
Cash	192	258
Securities	162	382
Pledged receivables	33	0
Total other collateral accepted	387	640
Securities accepted in reverse repo transactions	1 079	294

²⁾ Non-payment guarantees are guarantees under which the Bank is liable for non-monetary obligations of the customer.

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

Operating leasing

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

(CZK'm)	2010	2009
Within 1 year	18	18

28 / RELATED-PARTY TRANSACTIONS

The Bank provides specialized services supporting export activities in accordance with Act No. 58/1995 Coll. This Act also determines the structure of the shareholders; the Bank is fully controlled by the Czech state which owns 80% of the Bank's share capital directly and 20% of the share capital indirectly via EGAP, which is fully owned by the Czech state. Related-party transactions are concluded within normal business transactions. Related parties are identified based on the criteria of IAS 24.

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

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

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

(CZK'm)	2010		2009	
	Balance at December 31	Income	Balance at December 31	Income
FINANCIAL ASSETS				
PLACEMENTS WITH BANKS				
Česká národní banka (central bank)	642	4	377	6
	642	4	377	6
BONDS HELD-TO-MATURITY				
ČEZ, a. s.	-	3	49	4
Ministerstvo financí ČR	2 164	66	1 971	64
	2 164	69	2 120	68
Total financial assets	2 806	73	2 497	74

(CZK'm)	2010		2009	
	Balance at December 31	Expense	Balance at December 31	Expense
FINANCIAL LIABILITIES				
DUE TO CLIENTS				
EGAP, a.s.	1 933	16	816	(17)
Ministerstvo financí ČR	-	4	2 674	27
	1 933	20	3 490	10
LOANS RECEIVED FROM CLIENTS				
Ministerstvo financí ČR	1 830	82	-	-
Total financial liabilities	3 763	102	3 490	10

³⁾ State ownership was transferred to the buyer, Chemoprojekt, a.s. as of 23 June 2009

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

29 / RECONCILIATION OF SELECTED ITEMS

Until 2009, the Bank reported profit/loss from hedging interest rate derivatives as the total profit/loss from hedging the fair value of granted loans, or the total profit/loss from hedge accounting of its own bond issues. The presentation treatment was changed in 2010.

Interest income and expenses

(CZK'm)	2009		
	Originally	Change in the reporting	Restated
Interest income from loans to banks	199	1	200
Interest income from loans to clients	1 528	42	1 570
Interest income from interbank deposits	31		31
Interest income from current accounts with other banks	1		1
Interest income from non-tradeable securities	11		11
Interest income from loans and receivables	1 770	43	1 813
Interest income from CNB loans - repos	6		6
Interest income from available-for-sale securities	63		63
Interest income from financial investments held-to-maturity - securities	48		48
Gains on hedging interest derivative instruments	30	51	81
Other interest earnings	147	51	198
Interest and similar income	1 917	94	2 011
Interest expense from received bank credits	(206)		(206)
Interest expense from term deposits	(50)		(50)
Interest expense from checking accounts	(4)		(4)
Interest expense from interbanking operations	(3)		(3)
Interest expense from repos with banks	(34)		(34)
Interest expense from issued bonds	(1 384)		(1 375)
Interest expense from financial liabilities in amortized costs	(1 681)	9	(1 672)
Loss on hedging interest derivative instruments	(391)	(103)	(494)
Other interest expense - collateral	(3)		(3)
Interest expense and similar charges	(2 075)	(94)	(2 169)
Net interest income	(158)	-	(158)
Income tax expense	168		168
Net profit for the year	94		94

30 / SUBSEQUENT EVENTS

With effect from 14 February 2011, the Supervisory Board appointed Tomáš Uvíra and Luboš Vaněk new members of the Board of Directors and subsequently, the Board of Directors elected Tomáš Uvíra the Bank's Chairman and CEO.

Based on a decision of an international arbitration tribunal, AIG will gradually pay the costs of legal representation and arbitration costs incurred by ČEB in prior years.

Date of preparation:
14 March 2011

Signed on behalf of the Bank's Board of Directors:



Mgr. Luboš Vaněk Ing.
Vice-Chairman of the Board of Directors and Deputy CEO



Miloslav Kubišta
Member of the Board of Directors and Deputy CEO



Report on Relations

with Related Parties



» 5. Report on the Relations between the Controlling and the Controlled Entities and between the Controlled Entity and Other Entities Controlled by the Same Controlling Entity (hereinafter the "Related Parties")
Pursuant to Section 66a (9) Act No. 513/1991 Coll., Commercial Code, as subsequently amended

5.1. Controlled Entity

Name of the Entity: Česká exportní banka, a.s. (hereinafter also the "Bank")
Registered Office: Prague 1, Vodičkova 34/701, 111 21
Corporate ID: 63078333
Tax ID: CZ63078333
Recorded in the Register of Companies held at the Municipal Court in Prague, File B, Insert 3042.

5.2. Controlling Entity

Česká exportní banka, a.s. is controlled by the State. The State executes its shareholder rights through the ministries referred to below.

Composition of Shareholders as of 31 December 2010

1. State	80 % of shares
In order to determine the majority of votes of the ministries, the votes are divided as follows:	
Ministry of Finance	52 votes
Ministry of Industry and Trade	30 votes
Ministry of Foreign Affairs	12 votes
Ministry of Agriculture	6 votes
2. Exportní garanční a pojišťovací společnost, a.s.	20 % of shares

Share Capital	CZK 4,000,000,000	International Securities Identification Numbers (ISIN)
1. State	100 shares with a nominal value of CZK 10 million	CZ0008040987
	2,200 shares with a nominal value of CZK 1 million	CZ0008040995
2. Exportní garanční a pojišťovací společnost, a.s.	50 shares with a nominal value of CZK 10 million	CZ0008040987
	300 shares with a nominal value of CZK 1 million	CZ0008040995

In 2010, Česká exportní banka, a.s. increased its share capital by CZK 1,050 million for the purpose of developing its business activities; the increase in the share capital was approved by the General Meeting of Česká exportní banka, a.s. of 29 April 2010 and became legally effective on 6 August 2010.

Česká exportní banka, a.s. does not have controlling influence in any company.

5.3. Reporting Period

This report describes the relations between the related parties for the most recent reporting period, ie for the year ended 31 December 2010.

5.4. Related Party Transactions

Pursuant to the information available to Česká exportní banka, a.s., the State currently acts as a controlling entity in the following entities with which the Bank was in a contractual relation in 2010:

- Česká agentura na podporu obchodu/CzechTrade, corporate ID: 00001171
- Česká národní banka, corporate ID: 48136450
- Česká pošta, s.p., corporate ID: 47114983
- ČESKÁ TELEVIZE, corporate ID: 00027383
- ČESKÝ ROZHLAS, corporate ID: 45245053
- Českomoravská záruční a rozvojová banka, a.s., corporate ID: 44848943
- Ministry of Finance of the Czech Republic, corporate ID: 00006947
- Prague Securities Centre, corporate ID: 48112089 /note: until 6 July 2010/
- Exportní garanční a pojišťovací společnost, a.s., corporate ID: 45279314.

In the reporting period, the Bank had the following securities in its portfolio:

- ČEZ, a.s., corporate ID: 45274649 /note: until 27 August 2010/
- Ministry of Finance of the Czech Republic, corporate ID: 00006947.

In the reporting period, the Bank concluded related party transactions as follows:

Banking transactions on the liabilities side of the balance sheet of ČEB, a.s.

Related party with which contracts were concluded	Name of contract
Ministry of Finance of the Czech Republic	1 Contract regarding the rules and conditions for the provision of loans

Non-Banking Related Party Contractual Transactions

Related party with which contracts were concluded	Name of contract
Exportní garanční a pojišťovací společnost, a.s.	39 Contracts for the insurance of export-related credit risks
	4 Contracts for the definition of rights and obligations concluded in connection with an insurance claim in line with the insurance contract
	2 Annexes to the contracts for the insurance of export-related credit risks regulating the increase of the insured amount and prolonging the period of insurance
	3 Contracts for the assignment of receivables (assignment of receivables after the payment of insurance claims pursuant to the insurance contract)

The contracts were concluded under arm's length conditions and the Bank suffered no detriment arising from these contracts.

5.5. Other Legal Acts Taken on Behalf of the Related Parties

No other legal acts were taken on behalf of the related parties in 2010.

5.6. Other Adopted Measures

Pursuant to Act No. 58/1995 Coll., as subsequently amended, Česká exportní banka, a.s. provides state support of export. In line with the relevant act, the State is obligated to pay for the determined losses which the Bank incurs in operating the supported funding. The State also provides guarantee for the Bank's liabilities in the scope defined by Act No. 58/1995 Coll.

The State as the controlling entity did not adopt any measures which would cause detriment to the Bank in the most recent reporting period. During the reporting period, the Bank did not adopt any measures from its own will or for the benefit or at the initiative of other related parties, other than those referred to above.

5.7. Provided Compensations

In 2010, EGAP, a.s. paid insurance compensations in the amount of CZK 514.9 million to the Bank. In addition to this benefit, no other benefits arising from the concluded contracts were provided or received in 2010. The only exception are the usual fees related to the provision of bank products, insurance premium payment and its rebilling and the fees related to the maintenance of current and deposit accounts.

In accordance with Act No. 58/1995 Coll., the State provided subsidies arising from the financing of export with state support under international rules (specifically the OECD Consensus) in the aggregate amount of CZK 741.7 million, ie an additional payment of the subsidy for 2009 in the amount of CZK 324.8 million and the payment of subsidy advances for 2010 in the amount of CZK 416.9 million. The aggregate amount of the subsidy for 2010 is CZK 492.5 million.

The volumes of related party transactions for 2010 and the balances of entities controlled by the State and other related parties as of 31 December 2010 and 31 December 2009 are set out below.

(CZK mil.)	2010			2009		
FINANCIAL ASSETS	Balance at 31 Dec	Balance at 1 Jan	Income	Balance at 31 Dec	Balance at 1 Jan	Income
PLACEMENTS WITH BANKS						
ČNB	642	377	4	377	442	6
	642	377	4	377	442	6
BONDS HELD TO MATURITY						
ČEZ	0	149	3	149	50	4
Ministry of Finance of the Czech Republic	2 164	1 971	66	1 971	1 276	64
	2 164	2 120	69	2 120	1 326	68
Total financial assets	2 806	2 497	73	2 497	1 768	74

(CZK mil.)	2010			2009		
FINANCIAL LIABILITIES	Balance at 31 Dec	Balance at 1 Jan	Income	Balance at 31 Dec	Balance at 1 Jan	Income
DUE TO CLIENTS						
EGAP, a.s.	1 933	816	16	816	724	(17)
Ministry of Finance of the Czech Republic	0	2 674	4	2 674	0	27
	1 933	3 490	20	3 490	725	10
CREDITS RECEIVED FROM CLIENTS						
Ministry of Finance of the Czech Republic	1 830	0	82	0	0	0
Total financial liabilities	3 763	3 490	102	3 490	725	10

(CZK mil.)	2010			2009		
COMMITMENTS AND GUARANTEES GIVEN	Balance at 31 Dec	Balance at 1 Jan	Income	Balance at 31 Dec	Balance at 1 Jan	Income
Technoexport, a.s. ¹⁾	0	0	0	0	2	0
Total	0	0	0	0	2	0

¹⁾ State ownership interest transferred to the buyer, Chemoprojekt, a. s., as of 23 June 2009.

5.8. Legal Disputes

Česká exportní banka, a.s. is not involved in any legal dispute with the State or an entity controlled by the State.

5.9. Statement of the Board of Directors

The Bank's Board of Directors states that the information included in this report is true and that the report contains all identifiable information about the related parties. The Board of Directors states that the Bank suffered no detriment from the transactions referred to above in the most recent reporting period and that the State did not use its influence arising from its position as the controlling entity to enforce the adoption of such a measure or the conclusion of such a contract that would result in a detriment in the most recent reporting period.

Prague on 21 April 2011



Ing. Tomáš Uvíra
Chairman of the Board of Directors



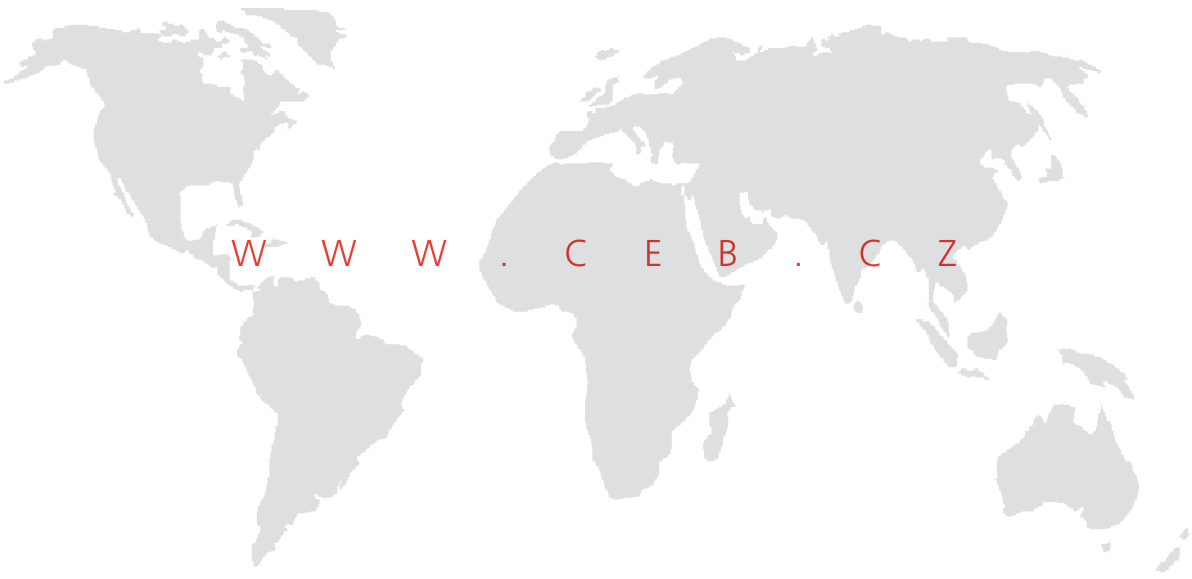
Ing. Michal Bakajsa
Vice-Chairman of the Board of Directors



Česká exportní banka

Vodičkova 34, P.O. BOX 870, 111 21 Praha 1, tel.: +420 222 843 111, fax: +420 224 226 162, e-mail: ceb@ceb.cz, www.ceb.cz





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