ANNUAL REPORT 2017

# 017

CZECH EXPORT BANK
ČESKÁ EXPORTNÍ BANKA

# Opening Word of the Chairman of the Board of Directors

Dear Partners of the Czech Export Bank,

2017 was, in many respects, a year of records for Czech export as well as the entire Czech economy. I am all the more pleased that, even at a time of the historically highest economic conjecture, the Czech Export Bank asserted its key role in supporting local exporters. Again in 2017, we were able to effectively assist our business partners in successfully expanding to new markets. For the first time in its history, the Bank funded export to Bahrain, Qatar, Peru, Kyrgyzstan, Armenia and Indonesia.

In the past year, the Czech Export Bank funded 181 business transactions, which is four times the number four years ago and, additionally, the highest number ever recorded by the Bank. In the past year, small and medium-sized businesses played a crucial role as the Bank concluded 100 contracts worth over CZK 500 million with the segment. It is the highest number ever recorded by the Bank in terms of the number of business transactions as well as the volume of provided funds. What is more, half of the contracts entered into funded export to countries outside Europe.

I am pleased that the Bank has succeeded in making a major positive shift in risk management in recent years. This is also supported by the fact that none of the loans provided in the past four years is problematic. The Bank generated a net profit of CZK 257 million. It continued to place emphasis on improving the efficiency and effectiveness of its activities and reducing operating costs, which dropped by almost a fourth between 2015 and 2017.

However, the Czech Export Bank continues to be burdened with problematic loans from the past. In 2017, the Bank undertook maximum efforts to deal with this "heritage", which was reflected in the record volume of CZK 1.33 billion of collected debt, primarily from business transactions in the Russian Federation.

In the context of economic and business results, it is clear that the Czech Export Bank was a reliable partner to Czech exporters even in 2017. The interest in its irreplaceable products and services proves that it will also be one in 2018.

Karel Bureš
Chairman of the Board of Directors and CEO

# Auditor’s Report

Deloitte.

Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 - Karlín
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.: 49620592
Tax ID. No.: CZ49620592

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

Having its registered office at: Vodičkova 34 č.p. 701, 11121 Praha 1

## Report on the Audit of the Financial Statements

### Opinion

We have audited the accompanying financial statements of Česká exportní banka, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Česká exportní banka, a.s. as at 31 December 2017, 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.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter

We draw attention to Note 3b to the financial statements which describes the project of constructing power station in Turkey with the current gross exposure of approximately EUR 461 million that faces significant uncertainties. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>Related audit procedures</th></tr>
<tr><td colspan="2">Allowances for the loans and receivables</td></tr>
<tr><td>
(See Note 14 of the Financial Statements for the details)
At 31 December 2017, gross loans and receivables (hereinafter "loans") were CZK 59 485 million against which provisions for loans and receivables (hereinafter "allowances") of CZK 6 627 million were recorded. The Bank exercise significant judgment when determining both when and how much to record as provisions.
Provisions for losses on loans and receivables are recognised when there are reasonable doubts over the recoverability of the loan balance. Provisions for losses on loans and receivables represent management's assessment of potential losses in relation to the Bank's on and off balance sheet activities.
The Bank determines impairment of individual receivables in terms of credit risk.
<ul><li>The amount of the loss arising from the impairment of assets carried at amortised 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.</li></ul>
Because of the significance of these judgements and the size of loans and receivables, the audit of provisions for loans to customers is a key area of focus.
</td><td>
We evaluated whether the internal impairment policies comply with the requirement of the relevant accounting standard (IAS 39).
<u>Testing of internal controls</u>
We evaluated the design and operating effectiveness of the key internal controls management has established over the impairment evaluation processes. Our procedures included testing:
<ul>
<li>System-based and manual controls over the timely recognition of impaired loans and receivables;</li>
<li>Controls over the allowance calculation and allowance recording;</li>
<li>Controls over collateral valuation estimate;</li>
<li>The governance process of management validation of allowance calculations; and</li>
<li>IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists</li>
</ul>
<u>Identification of impaired loans</u>
We evaluated on a sample of loans and advances (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.
<u>Allowances for loans</u>
We selected a sample of loans and, where we deemed them to be impaired, tested the estimation of the future expected cash flows from customers including from realisation of collateral held. This work involved assessing the work performed by external experts used by the Bank to value the collateral or to assess the estimates of future cash flows. Where we determined that a more appropriate assumption or input in provision measurement could be made, we recalculated the provision on that basis and compared the results in order to evaluate management estimate.
</td></tr>
</table>

| Key audit matter | Related audit procedures |
|---|---|
| **Interest and fee income recognition** | |
| (See Note 6 of the Financial Statements for the details)<br><br>For the year ended 31 December 2017 the net interest income and similar income was CZK 641 million and net fee and commission income was CZK 11 million, the main source being loans and deposits. These are together with the state subsidy the main contributors to the net operating income of the Bank affecting the Bank's profitability.<br><br>The Bank accounts for the accruals of interest using the effective interest rate method. 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. If the financial asset is reduced due to impairment, interest income is recognised using the interest rate that was used to discount cash flows in order to determine impairment.<br><br>Fees and commissions, which are not part of the effective interest rate, are generally recognised on an accrual basis when the service has been provided. Commitment commissions for loans that are not likely to be drawn are recognised as revenue on the date of the maturity of the liability. Advisory<br>and service fees are recognised based on the appropriate service contracts, usually on an accrual basis.<br><br>Revenue recognition specifics, a high volume of transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording resulted in this matter being identified as a key audit matter. | We evaluated the design and operating effectiveness of the key internal controls and focused on :<br><br>• Assessment of interest/fees recognition during new product validation;<br>• Interest/fee inputs on customer loans and deposits, including authorisation of the changes in the interest and fee price list and authorisation of non-standard interest/fees;<br>• Recording of fee and interest income and management oversight; and<br>• IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists.<br><br>We performed the following procedures with regard to interest and fees revenue recognition:<br><br>1) We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IAS 39).<br><br>We focused our testing on the correct classification of:<br><br>• Fees that are identified as directly attributable to the financial instrument;<br>• Fees that are not identified as directly attributable to the financial instrument.<br><br>2) We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan. |

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 24 April 2017 and our uninterrupted engagement has lasted for 9 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and which have not been disclosed in the annual report.

**Report on Report on relations among related entities**

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of Česká exportní banka, a.s. for the year ended 31 December 2017 which is included in this annual report on pages 104 to 109. This report on relations among related entities 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 the Company's 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 2017 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

In Prague on 26 March 2018

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

David Batal
registration no. 2147

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# Key Indicators

Unaudited data

| | Unit | 2017 | 2016 |
|---|---|---|---|
| **Financial results** | | | |
| Net interest income | CZK million | 641 | 912 |
| Net fee and commission income | CZK million | 11 | 13 |
| Operating income including state subsidies | CZK million | 68 | 154 |
| Asset impairment | CZK million | 52 | (40) |
| Total operating costs | CZK million | (411) | (428) |
| Income Tax | CZK million | (2) | (193) |
| Net profit | CZK million | 257 | 418 |
| **Balance sheet** | | | |
| Total assets | CZK million | 62 755 | 80 833 |
| Amounts due from customers | CZK million | 48 940 | 64 352 |
| Amounts due from banks | CZK million | 3 896 | 2 530 |
| Client deposits | CZK million | 1 462 | 2 115 |
| Bank deposits | CZK million | 1 919 | 4 431 |
| Issued bonds | CZK million | 51 914 | 66 268 |
| Total equity | CZK million | 6 714 | 6 495 |
| **Ratios** | | | |
| Return on average assets (ROAA) | % | 0.35 | 0,48 |
| Return on average equity tier 1 (ROAE) | % | 3.99 | 7.07 |
| Total capital ratio (ROAE) | % | 80.26 | 58,56 |
| Assets per employee (ROAE) | CZK million | 399.71 | 542.50 |
| Administrative expenses per employee (ROAE) | CZK million | (1.93) | (2.08) |
| Net profit or loss per employee (ROAE) | CZK million | 1.64 | 2.80 |
| **Other information** | | | |
| Average headcount employees | employees | 156 | 148 |
| Headcount (as of 31 December) | employees | 157 | 149 |
| Guarantees issued | CZK million | 1 721 | 2 111 |
| Loan commitments | CZK million | 1 702 | 2 594 |
| **Rating – long-term payables** | | | |
| Moody's | – | A1 | A1 |
| Standard & Poor's | – | AA- | AA- |

Source: ČEB

**Ratios are published every quarter on the Bank's website:**
https://www.ceb.cz/kdo-jsme/povinne-zverejnovani-informace/pravidelne-ctvrtletni-informace2

**Return on average equity (ROAE)**

$$ROAE = \frac{Net\ profit_{\ N}/N\times 12}{\frac{\sum_{j=0}^{N} Original\ capital\ Tier\ 1}{N+1}}$$

where: NUMERATOR is recalculated to the annual base and DENOMINATOR is the annual average j=0 = initial balance as of 1 January; i.e. balance as of the last month of the preceding year
N = number of the assessed month

**Return on average assets (ROAA)**

$$ROAA = \frac{Net\ profit_{\ N}/N\times 12}{\frac{\sum_{j=0}^{N} Total\ assets}{N+1}}$$

where: NUMERATOR is recalculated to the annual base and DENOMINATOR is the annual average j=0 = initial balance as of 1 January; i.e. balance as of the last month of the preceding year
N = number of the assessed month

**Assets per employee (X)**

$$X = \frac{Total\ assets_{\ N}}{Headcount_{\ N}}$$

Where: N = number of the assessed month

**Administrative expenses per employee (Y)**

$$Y = \frac{Administrative\ expenses_{\ N}/N\times 12}{Headcount_{\ N}}$$

where: NUMERATOR is recalculated to the annual base N = number of the assessed month

**Net profit per employee (Z)**

$$Z = \frac{Net\ profit_{\ N}/N\times 12}{Headcount_{\ N}}$$

where: NUMERATOR is recalculated to the annual base
N = number of the assessed month

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

# 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 "ČEB" or the "Bank") is registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File No. 3042.

Based on a banking licence[1] issued by the Czech National Bank under Ref. No. 2003/3966/520 dated 19 September 2003, amended by the decision of the Czech National Bank under Ref. No. 2003/4067/520 dated 30 September 2003, under Ref. No. 2005/3982/530, dated 16 December 2005, under Ref. No. 2011/141/570 dated 6 January 2011 and under Ref. No. 2013/6197/570 dated 27 May 2013, the principal business activities of ČEB are defined as follows:

(i) Pursuant to Section 1 (1) of Act 21/1992 Coll., on Banks

a) Acceptance of deposits made by general public

b) Provision of loans

(ii) Pursuant to Section 1 (3) of Act 21/1992 Coll., on Banks

a) Investing in securities on the Bank's own account, in the following scope:

- Investing in negotiable securities issued by the Czech Republic, the Czech National Bank and foreign governments;
- Investing in foreign bonds and mortgage bonds; and
- Investing in securities issued by legal entities with registered offices in the territory of the Czech Republic

c) Payment systems and clearing;

e) Provision of guarantees;

f) Opening of letters of credit

g) Collection services

h) Investment services under special legal regulation[2] comprising:

- Major investment services
  - – In line with Section 4 (2) (a) of the Act on Capital Market Undertakings – receiving and giving instructions on investment instruments, specifically investment instruments pursuant to Section 3 (1) (d) of this Act;
  - – In line with Section 4 (2) (b) of the Act on Capital Market Undertakings – implementation of instructions related to investment instruments on the account of clients, specifically investment instruments pursuant to Section 3 (1) (d) of this Act;
  - – In line with Section 4 (2) (c) of the Act on Capital Market Undertakings – trading of investment instruments, on the Bank's account, specifically investment instruments pursuant to Section 3 (1) (a) of this Act, with the exception of shares and other securities representing an equity investment in a company or another legal entity, specifically investment instruments pursuant to Section 3 (1) (c) and (d) of the Act on Capital Market Undertakings;
  - – In line with Section 4 (2) (e) of the Act on Capital Market Undertakings – investment advisory on investment instruments, specifically instruments pursuant to Section 3 (1) (d) of this Act; and
- Additional Investment Services
  - – In line with Section 4 (3) (a) of the Act on Capital Market Undertakings – escrow and administration of investment instruments including the relating services, specifically investment instruments pursuant to Section 3 (1) (a), (c) and (d) of this Act;
  - – In line with Section 4 (3) (c) of the Act on Capital Market Undertakings – advisory on the capital structure, industrial strategies and related issues, advisory and services on company transformations and company transfers.

l) Provision of banking information;

m) Trading on the Bank's own account or on the client's account in foreign currencies that are not investment instruments and in gold to the extent of the following:

- Trading on the Bank's own account in foreign bonds;
- Trading on the Bank's own account in funds denominated in foreign currencies;
- Trading on the Bank's own account or on its clients' account in negotiable securities issued by foreign governments;
- Trading on the Bank's own account or on its clients' account in monetary rights and obligations derived from the above-mentioned foreign currencies;
- Trading on its clients' account in funds denominated in foreign currencies;

p) Activities directly related to the activities mentioned in Česká exportní banka's banking licence.

[1] The banking licence replaced the permit issued by the Czech National Bank to Česká exportní banka, a.s., based on which ČEB was allowed to perform its activities as a bank; the permit was issued on 6 February 1995 and the change was made on 27 June 1996.

[2] Act 256/2004 Coll., on Capital Market Undertakings.

**Summary of Activities the Performance or Provision of which was Limited or Eliminated by the Czech National Bank during 2017:** No activities have been limited or eliminated.

## 1.2. Registered Office and Legal Status of ČEB and Legal Regulations Governing Its Activities

| | |
|---|---|
| Registered office: | Prague 1<br>Vodičkova 34 č.p. 701<br>111 21 |
| Legal status: | Joint Stock Company |
| Corporate ID (IČ): | 63078333 |
| Telephone: | +420 222 841 100 |
| Fax: | +420 224 211 266 |
| E-mail: | ceb@ceb.cz |
| Website: | www.ceb.cz |

The principal Czech legal regulations under which Česká exportní banka performed its activities in 2017:

| | |
|---|---|
| Act 101/2000 Coll., | on Personal Data Protection; |
| Act 200/1990 Coll., | on Offences; |
| Act 370/2017 Coll., | on Payments; |
| Act 21/1992 Coll., | on Banks; |
| Act 280/2009 Coll., | the Tax Code; |
| Act 190/2004 Coll., | on Bonds; |
| Act 235/2004 Coll, | on Value Added Tax; |
| Act 253/2008 Coll., | on Certain Measures against Money Laundering and Terrorism Financing; |
| Act 69/2006 Coll., | on the Implementation of International Sanctions; |
| Act 256/2004 Coll., | on Capital Market Undertakings; |
| Act 499/2004 Coll., | on Archiving and Record Management; |
| Act 563/1991 Coll., | on Accounting; |
| Act 89/2012 Coll., | Civil Code; |
| Act 90/2012 Coll., | on Business Corporations and Cooperatives (Act on Business Corporations); |
| Act 58/1995 Coll., | on Insuring and Financing of Exports with State Support; |
| Act 229/2002 Coll., | on the Financial Arbiter; |
| Act 586/1992 Coll., | on Income Taxation; |
| Act 589/1992 Coll., | on Social Security Contributions and Contributions to the State Employment Policy; |
| Act 592/1992 Coll., | on Public Health Insurance; |
| Act 93/2009 Coll., | on Auditors; |
| Act 304/2013 Coll., | on Public Registers of Legal and Natural Entities; |
| Regulation 314/2013 Coll., | on Submitting Information and the Underlying Documents to the Czech National Bank by Entities included in the Financial Institution Sector; |
| Regulation 163/2014 Coll., | on Rules in the Prudential Business of Banks, Savings Banks and Credit Associations and Securities Brokers; |
| Regulation 231/2009 Coll., | on the Requisites and Manner of Keeping the Transactions and Orders Books for Investment Firms, and on the Principles for Keeping Records of Received and Transmitted Orders for Investment Intermediaries; |
| Regulation 233/2009 Coll. | on Applications, Approval of Persons and the Manner of Proving Professional Qualifications, Trustworthiness and Experience of Persons; |
| Regulation 234/2009 Coll., | on Anti-market Abuse Protection and Transparency; |
| Regulation 281/2008 Coll., | on Certain Requirements for the System of Internal Principles, Procedures and Review Measures for Anti-money Laundering and Terrorism Financing; |
| Regulation 308/2017 Coll., | on Detailed Provisions for Certain Rules related to the Provision of Investment Services; |
| Regulation 427/2013 Coll., | on the Provision of Reports to the Czech National Bank by Securities Traders; |
| Regulation 143/2009 Coll., | on the Professionalism of Individuals Performing Activities related to Securities for Traders; |

| | |
|---|---|
| Regulation 58/2006 Coll., | on Keeping Separate Records on Investment Instruments and Records related to the Separate Records on Investment Instruments; |
| Regulation 71/2011 Coll., | on the Form, Structure and Method in Keeping and Providing Data that is Compulsory for Banks and Foreign Bank Branches to Report and that is to be provided to the Investment Insurance Fund; |
| Act 408/2010 Coll., | on Financial Collateral; |
| Regulation No. 424/2017 Coll., | on Information Obligations of Certain Persons Doing Business on the Capital Market |

## 1.3. Disclosed Documents

ČEB's Articles of Association in Czech are publicly available and the hard-copy 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 in the Collection of Deeds of the Commercial Register file No. B 3042/SL 128 of the Municipal Court in Prague. On the website of the Commercial Register – Collection of Deeds, the updated version of ČEB's Articles of Association is available under the following address: https://or.justice.cz/ias/ui/vypis-sl-firma?subjektId=457155

In addition, ČEB's website makes publically available all documents and information on its activities, through which it meets its informational obligation arising from the relevant legal regulations that the Bank is to follow in performing its business

## 1.4. Additional Information on ČEB

ČEB is not a member of any group.

Act 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 of public support applied in financing state-supported export loans with a maturity period of at least two years (predominantly with the "OECD and WTO Consensus").

Under Section 8 (1) (b) of Act 58/1995 Coll., on Insuring and Financing Exports with State Support, the state is held liable for the obligations of ČEB arising from payments of funds received by ČEB and for obligations arising from other ČEB'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 loans 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 complies with the procedures set out in OECD Council Recommendation on Common Approaches for Officially-Supported Export Credits and Environmental and Social Due Diligence (2016) providing guidance on the application of some rules in state-supported export credits. ČEB does not perform any environmental activities on its own.

Representative office of ČEB 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 the Russian Federation's Order No. RF 02-437 dated 7 October 1997.

| | |
|---|---|
| Adresa zastoupení: | Maši Poryvaevoj 7 |
| Address of the RO: | Mashi Poryvaevoy 7 |
| | 107 078 Moscow |
| | Russian Federation |
| Telephone: | +7 499 975 40 08 |

In compliance with Section 41 (a) of Act 21/1992 Coll., on Banks, Česká exportní banka, a.s. contributes to the system of insurance of receivables from deposits, namely to the Deposit Insurance Fund. The contributions to the system amounted to CZK 31,416 in 2017.

ČEB as a securities trader is obliged to contribute to the Deposit Guarantee Fund of the Securities Traders in compliance with Act 265/2004 Coll., on Capital Market Undertakings. In compliance with Section 129 (2) of the Act, the contribution of Česká exportní banka, a.s. amounted to CZK 10,000 in 2017.

Since 2016, ČEB has been obliged to contribute to the Crisis Solution Fund in compliance with the relevant provisions of the Act on Remedial Procedures and Financial Market Crisis Solution (predominantly Sections 209 and 214). The contribution for 2017 as stipulated by the Czech National Bank amounted to CZK 14,709, 183.

2017

## 1.5. Administrative, Management and Supervisory Bodies of ČEB and Related Committees

**General Meeting** – the supreme bank body that decides by the majority of present shareholders in the issues that are entrusted to its authority by Act 90/2012 Coll., and the Bank's Articles of Association.

**Supervisory Board** – supervises the performance of the Board of Directors' activities and the performance of the Bank's business activities, and presents its opinions to the General Meeting.

**Vice-Chairman**
**Ing. Vladimír Bärtl** – Member since 23 June 2014, Vice-Chairman since 26 May 2016
Deputy Minister of Industry and Trade of the Czech Republic
Ministry of Industry and Trade of the Czech Republic

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**Members**
**Jan Drahota, MBA** – replacement members since 23 March 2017,
member since 24 April 2017
Representative of the Ministry of Finance of the Czech Republic
Independent expert

**Ing. Jakub Skavroň** – replacement members since 25 July 2017,
member since 21 December 2017
Representative of the Ministry of Finance of the Czech Republic
Independent expert

**Ing. Miroslav Zámečník** – Replacement member since 15 August 2016,
member from 24 April 2017
Representative of the Ministry of Industry and Trade of the Czech Republic
Independent expert

**doc. PhDr. Petr Teplý, Ph.D.** – Replacement member since 26 May 2017,
member since 23 June 2014
Representative of the Ministry of Foreign Affairs of the Czech Republic
Independent expert

**Ing. Vladimír Pikora, Ph.D.** – replacement member since 19 February 2015,
member since 30 April 2015
Representative of the Ministry of Agriculture of the Czech Republic
Independent expert

**Tomáš Pubrdle, MA** – replacement member since 27 November 2015,
member since 15 January 2016
Senior product and strategy manager
Česká exportní banka, a.s.

**Board of Directors** – as the Bank's statutory body, 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 law or by regulations defined as competences of the General Meeting or the Supervisory Board. The Board of Directors makes decisions that may be subject to the Supervisory Board's additional approval in accordance with the Bank's Articles of Association.

**Chairman**
**Ing. Karel Bureš** – Member of the Board of Directors since 1 January 2014,
Chairman since 1 June 2014
CEO of ČEB in terms of executive management since 1 June 2014,
In charge of trade in terms of executive management since 1 June 2016

**Vice-Chairman**
**Ing. David Marek** – Member since 1 December 2014,
Vice-Chairman since 18 June 2015
In terms of executive management, Deputy CEO of ČEB,
in charge of risk-bearing debt management

**Vice-Chairman**
**Ing. Jaroslav Výborný, MBA** – Member since 1 July 2015,
Vice-Chairman since 22 September 2016
In terms of executive management, Deputy CEO of ČEB, in charge of risk management

**Member**
**JUDr. Martin Draslar, Ph.D.** – Member since 15 October 2015
In terms of executive management, Deputy CEO of ČEB,
in charge of legal issues and operations

*Ing. Miloš Večeřa – member of the Board of Directors 1 January – 28 February 2018*

**Audit Committee** – set up by a decision of the General Meeting of Česká exportní banka, a.s., 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. It monitors the procedure of obligatory audits of the financial statements and recommends the auditor.

The Composition of the Audit Committee in 2017 was as follows:

**Chairman**
**Ing. Ladislav Langr** – Member of the Audit Committee since 23 November 2014,
Chairman since 10 December 2014
Independent expert

**Members**
**Ing. Radovan Odstrčil** – Member of the Audit Committee since 27 April 2016
Independent expert

**Ing. Ladislav Zelinka, Ph.D.** – Replacement member since 8 February 2017,
Member of the Audit Committee since 24 April 2017
Independent expert

**Ing. Vladimír Bártl, MBA** – Member of the Audit Committee from 26 April 2012 to 25 April 2016 (expiry of office), re-elected from 27 April 2016 to 31 December 2017

**Other Decision-Making Bodies of ČEB**

Within the scope of its activities, the Board of Directors set 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 part of the management and control system of the Bank.

The Composition of the Credit Committee in 2017 was as follows:

**Chairman**
**Ing. Jaroslav Výborný, MBA** – Chairman of the Credit Committee
Member of the Board of Directors in charge of risk management

**Vice-Chairman**
**Ing. David Marek** – The First Vice-Chairman of the Credit Committee
Member of the Board of Directors in charge of risk-bearing debt management

Second Vice-Chairman of the Credit Committee
Member of the Board of Directors in charge of trade,
This position was vacant in 2017
Ing. Miloš Večeřa – Member of the Credit Committee 1 January – 28 February 2018

**Members**
**Ing. Emil Holan** – Member of the Credit Committee on behalf of risk management
**Ing. Jiří Soukup** – Member of the Credit Committee on behalf of risk management
**Ing. Monika Vilhelmová** – Member of the Credit Committee on behalf of trade
**Ing. Miloš Welser** – Member of the Credit Committee on behalf of trade

**Assets and Liabilities Management Committee (ALCO)** – operates as permanent decision-making and advisory body of the Board of Directors for deciding on and evaluating all issues related to selected business cases and the management of credit risk, and as an advisory body for ČEB managers. ALCO is a part of the management and control system of the Bank.

The Composition of ALCO in 2017 was as follows:

**Chairman**
**Ing. Karel Bureš** – Chairman of the Board of Directors and CEO

**Vice-Chairman**
**Ing. Jaroslav Výborný, MBA** – Chairman of the Board of Directors and CEO

**Members**
**Ing. Monika Vilhelmová** – Member on behalf of trade
**Ing. David Franta, MBA** – Member on behalf of Treasury
**Ing. Roman Somol, MBA** – Member on behalf of Banking Risk
**Ing. František Jakub, Ph.D.** – Member on behalf of Finance and Accounting
**Ing. Alena Heczková** – Member on behalf of Treasury
*Ing. Miloš Večeřa – Member of the Committee 1 January – 28 February 2018*

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

The composition of ITDC in 2017 was as follows:

**Chairman**
**JUDr. Martin Draslar, Ph.D.** – Member of the Board of Directors in charge of legal issues and operations

**Vice-Chairman**
**Ing. Jaroslav Výborný, MBA** – Member of the Board of Directors in charge of risk management

**Members**
**Ing. Jan Bukovský** – Member, ICT security inspector
**Luďka Videcká** – Member on behalf of Trade from 25 January 2016 to 30 September 2017
**Ing. Hana Vondráčková** – Member on behalf of Trade since 1 December 2017
**Ing. Petr Jindrák** – Member on behalf of Banking IS Development
**Ing. Pavel Kašpar** – Member on behalf of Banking IS Operation
**Ing. Filip Major, MBA** – Member on behalf of International Relations and Communication

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

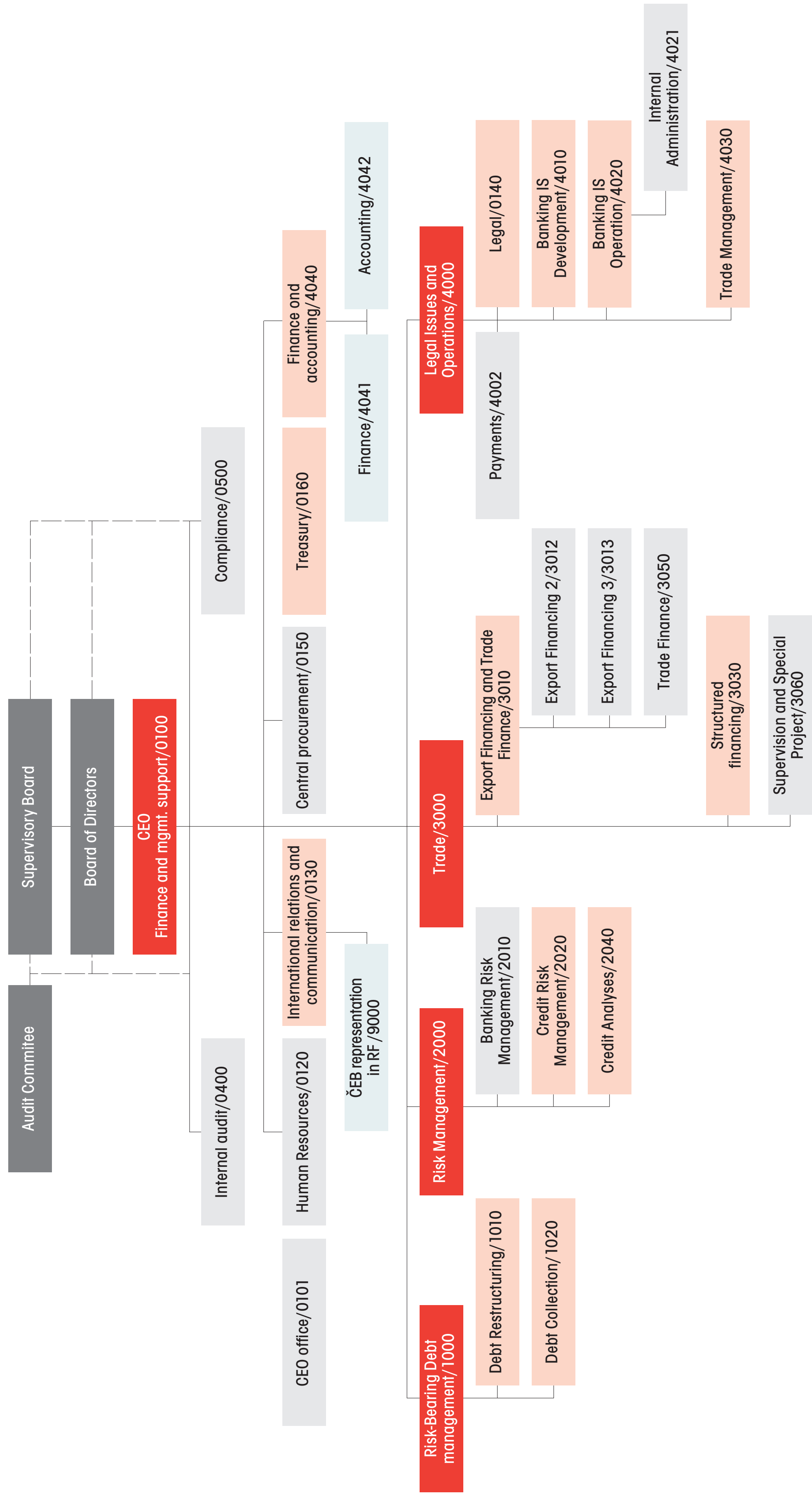
The composition of ORCO in 2017 was as follows:

**Chairman**
**Ing. Jaroslav Výborný, MBA** – Member of the Board of Directors in charge of risk management

**Vice-Chairman**
**JUDr. Martin Draslar, Ph.D.** – Member of the Board of Directors in charge of legal issues and operations

**Members**
**Ing. Roman Somol, MBA** – Member on behalf of risk management
**Ing. Miloš Welser** – Member on behalf of trade
**Mgr. Oľga Petrovicová** – Member on behalf of Compliance
**Ing. Pavel Kašpar** – Member on behalf of Banking IS Operation
**Ing. František Jakub, Ph.D.** – Member on behalf of Finance and Accounting

## 1.6. ČEB Organisational Chart




Organisational Structure of Česká exportní banka valid from 1 January 2017

Section Division Department

## 1.7. Declaration of No Conflicts of Interest

The members of the Bank's bodies, committees and councils declare that:

a) They have not abused their position in the Bank or the information that they had in place to gain profit that could not otherwise have been gained, either for themselves or for other persons;

b) They have not concluded any transactions using the investment instruments of the Bank's clients on their own account or on the account of a person closely related to them;

c) They have not provided instructions or recommendations to other persons related to the transactions with investment instruments of the Bank's clients that could be used by the persons in trading with the investment instruments on their own account;

d) They have avoided all activities that may potentially expose them to a conflict of interests.

# 2

# Report of the Board of Directors on the Bank's Business Activities and Its Assets and Liabilities in 2017

# 2 ● Report of the Board of Directors on the Bank's Business Activities and Its Assets and Liabilities in 2017

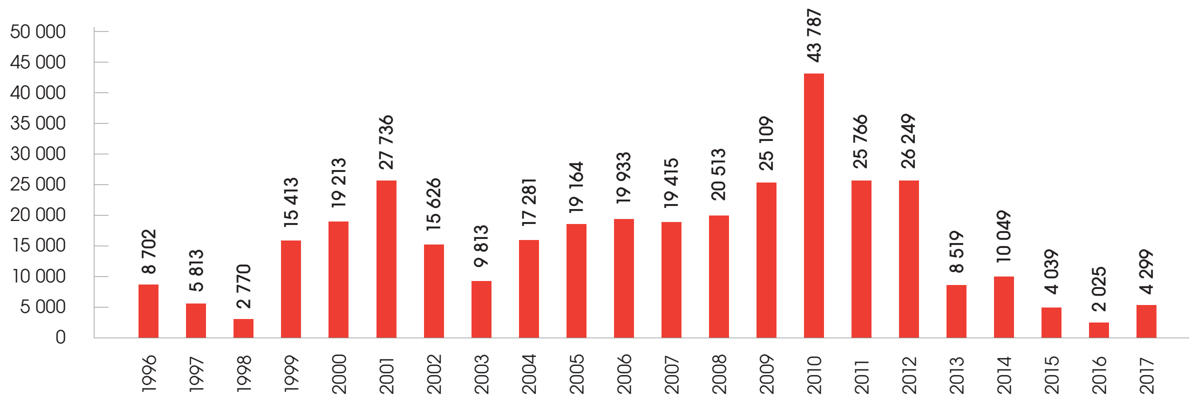
## 2.1. Overview of ČEB's Business Activity in 2017

### 2.1.1. Business Activities

For several years in a row, the total demand for products of state-supported export financing has shown a decreasing tendency in the Czech Republic. Nevertheless, in 2017, ČEB recorded a positive change in the volume of satisfied demand on the part of Czech exporters and export manufacturers for products of state-supported export financing as part of the Bank's market gap, which represented not only a substantial increase on the 2016 figure, but also a return of approximately 6% on the value of the volume of supported export in 2015.

The volume of demand on the part of Czech exporters and manufacturers satisfied by the Bank as measured by the volume of new transactions concluded in 2017 amounted to CZK 4,299.1 million. In terms of the number of transactions, 181 new contracts with exporters and export manufacturers were concluded. Compared to 2016, the 2017 performance is substantially more positive, with the year-on-year increase amounting to 112.3% in terms of volume and 126.3% in terms of the number of concluded contracts. The Bank's transactions comprising insurance from Exportní garanční a pojišťovací společnosti, a.s. (hereinafter "EGAP") represent approximately 80% of the volume of newly concluded contracts. The additional volume of approximately 20% comprises transactions conducted by the Bank without insurance from EGAP.

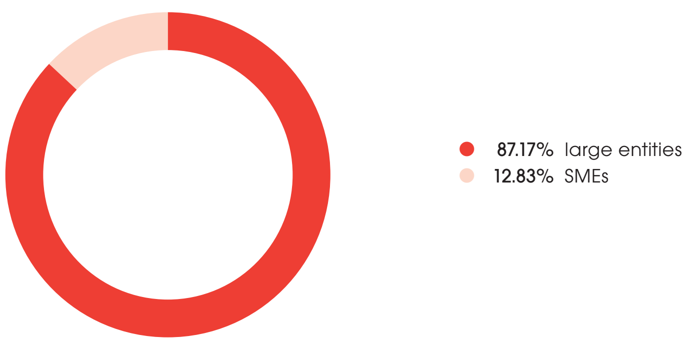
**Volume of contracts signed between 1996 and 2017** (CZK mil.) / Figure 1




Source: ČEB

As part of its business activities, the Bank significantly focuses on its priority sector, i.e. small and medium-sized businesses ("SME"). Individual transactions of this type are traditionally concluded at low amounts, which does not critically contribute to meeting the volume indicator.

**Proportion of contracts with SMEs and contracts with large entities in 2017** / Figure 2



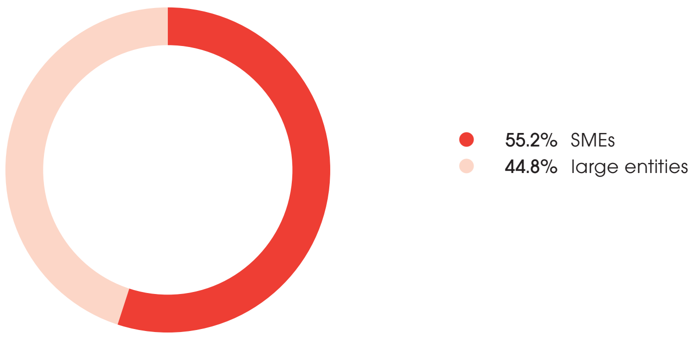

Source: ČEB

However, besides actual financing and issuing of guarantees, the priority of the Bank's activities related to SMEs is principally the provision of comprehensive support to businesses. As such, not only the transaction volume and number are of significance. In addition, advisory on the structure and implementation of export projects and deliveries by SME exporters as sub-contractors of major Czech exporters plays a significant role.

This corresponds with the fact that 100 new loan and guarantee contracts were signed in 2017 in support of SME exporters and manufacturers in the total volume of CZK 551.6 million. Compared to 2016, support to Czech SMEs increased by approximately 69.5% in terms of the number of contracts and by approximately 67.4% in terms of their volume. Of the 100 transactions for SMEs, transactions comprising EGAP insurance accounted for 36% (73.3% in terms of the volume of transactions), while transactions without EGAP insurance accounted for 64% (26.7% in terms of the volume of transactions). The number of contracts accounts for 55.25% of the total number of 181 new contracts concluded with exporters and export producers in 2017 and for 12.8% of their total volume.

The remaining portion of 44.75% of the number of contracts entered into in the total volume of CZK 3,747.5 million relates to 81 loan and guarantee transactions performed in support of exporters and export manufacturers primarily from the Mid Cap segment. Of the 81 transactions, the portion of transactions comprising EGAP insurance accounts for 86.4% (81.3% in terms of the volume of transactions), while transactions without EGAP insurance account for 13.6% (18.7% in terms of the volume of transactions), respectively.

**Proportion of contracts with SMEs and contracts with large entities concluded in 2017** / Figure 3




Source: ČEB

The Bank's mission principally includes activities related to the financing of export to countries that are subject to the Czech Republic's export interest as part of the Bank's market gap as identified by exporters. This covers financing and guarantees to both countries with an increased and a high degree of territorial risk – in respect of the demand of Czech exporters as part of the market gap – as well as countries with low territorial risk.

An important factor resulting from the Bank's support to Czech exporters in their efforts to achieve territorial diversification of their export activities is the wide range of target export countries in 2017, specifically 20 countries, with non-EU countries accounting for approximately 90% of the new contract volume, which fully complies with the strategic instructions given by the Bank's shareholders.

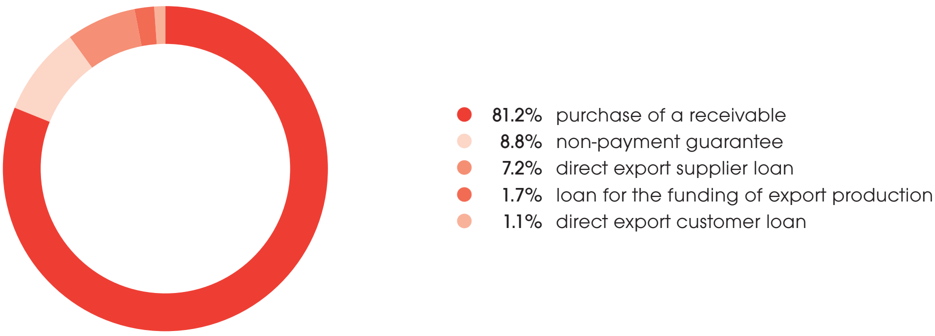
Table 1

| Proportion of target countries of export by the volume of new contracts concluded in 2017 | | | |
|---|---|---|---|
| Indonesia | 66.78% | Serbia | 0.23% |
| Cuba | 10.08% | Netherlands | 0.22% |
| Slovakia | 8.33% | Kyrgyzstan | 0.19% |
| Brazil | 6.05% | Peru | 0.18% |
| USA | 2.20% | Lithuania | 0.15% |
| Mauritius | 1.74% | India | 0.04% |
| Russia | 1.50% | Pakistan | 0.03% |
| Germany | 1.34% | France | 0.03% |
| Armenia | 0.58% | Chile | 0.02% |
| Kazakhstan | 0.32% | United Arab Emirates | 0.02% |

Source: ČEB

In terms of the number of contracts, the structure of the products provided shows a substantial proportion of transactions conducted in support of the SME segment, owing to which the dominant product in frequency terms is the purchase of receivables, accounting for 81.2%.

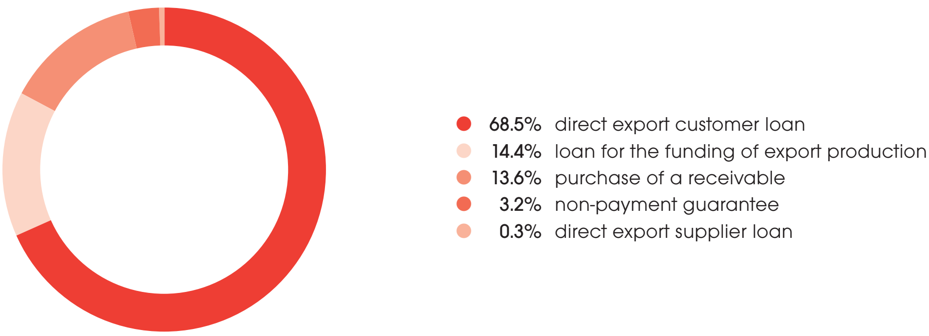
**Share of the number of new contracts in 2017 by product type** / Figure 4




Source: ČEB

As in previous years, the product dominating the structure of products provided in 2017 in terms of volume was the direct export customer loan, which typically accounts for a substantial volume as part of individual transactions.

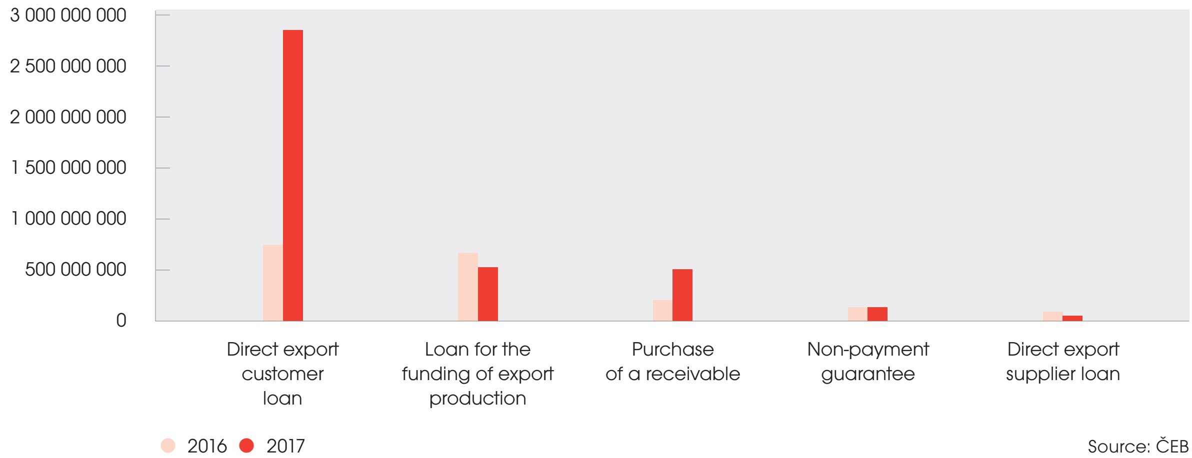
**Share of the volume of new contracts in 2017 by product type** / Figure 5




Source: ČEB

A year-on-year comparison shows a marked increase in the volume of direct export customer loans, which results, despite their low number in terms of concluded contracts, from the above mentioned significant volumes. Nevertheless, a year-on-year comparison also shows a marked increase in the volume of products primarily relating to SME support, namely purchases of receivables, whose volume increased by 151.3%.

**Year-on-year developments in the volume of new contracts by product** / Figure 6



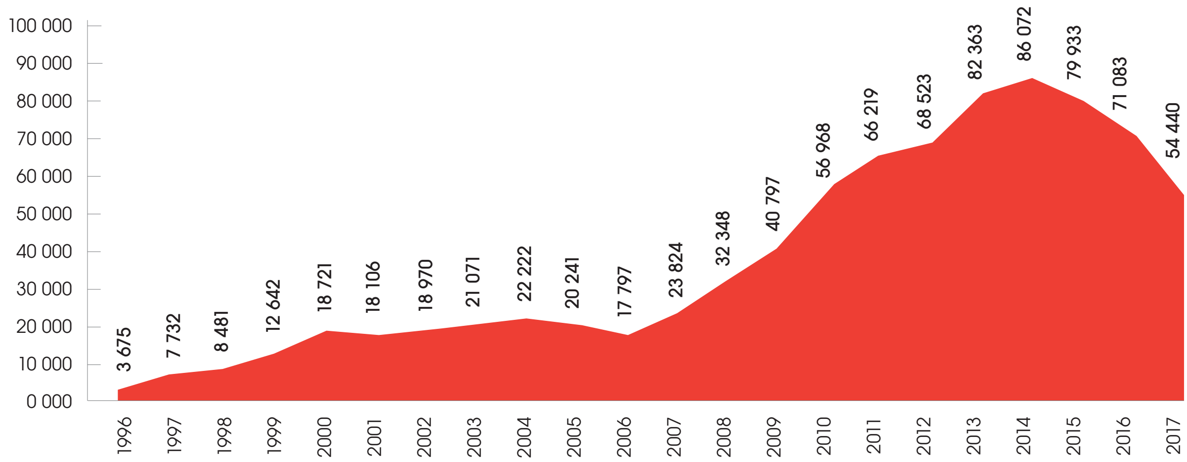

Source: ČEB

### 2.1.2. Development in the Loan Portfolio Principal Volume and Structure

The total principal amount of provided loans and purchased receivables decreased year-on-year by CZK 16,643 million to CZK 54,440 million, i.e. 23.4%, as of 31 December 2017.

As of 31 December 2017, the total principal amount of provided loans and purchased receivables represented 86.75% of total assets.

**Loan principal balance in 1996–2017** (CZK million) / Figure 7




Source: ČEB

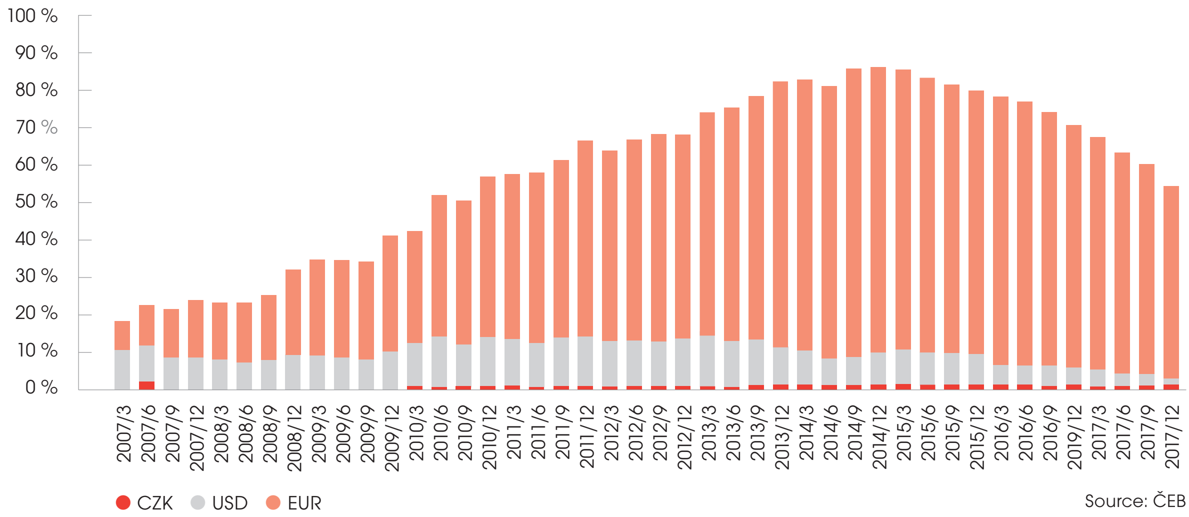
In respect of the principal structure of provided loans by contractual currency, loans denominated in EUR represent 94.2% (2016: 91.6%) and the portion of loans provided in USD represents 3.1% (2016: 6.3%) as of 31 December 2017. The portion of loans provided in CZK recorded a slight year-on-year increase to 2.7% (2016: 2.1%).

The total principal amount of loans provided in EUR during 2017 decreased year-on-year by EUR 402 million to a total of EUR 2,008 million, i.e. by 16.7%.

The total principal amount of loans provided in USD during the same period decreased by USD 95 million to a total of USD 79 million, i.e. by 54.6%.

The total principal amount of loans provided in CZK during the same period decreased by CZK 30 million to a total of CZK 1,490 million, i.e. by 2%.

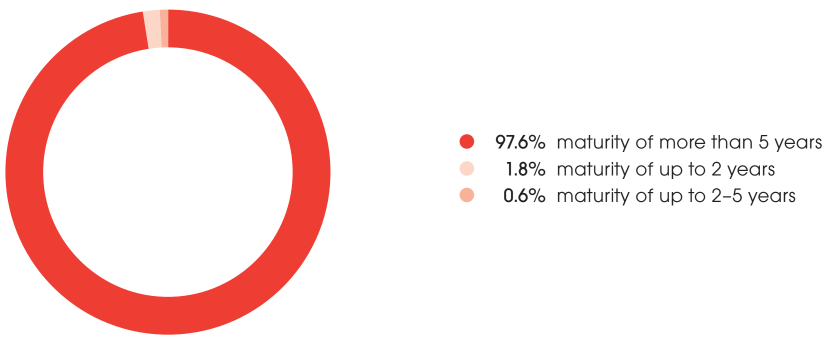
**Loan portfolio – structure by currency – proportion development** / Figure 8




Source: ČEB

In respect of the contractual maturity of loans, the breakdown of loan principal amounts remained almost the same from a year-on-year perspective. This parameter is influenced by two factors: the type of exported goods financed by the Bank and the payment terms that are common on international markets. The loan portfolio structure by loan maturity, which consists of the set of products used in financing transactions, is based on both the factors stated above and reflects a high degree of financed export of machinery and asset groups with long maturities.

**Loan portfolio – broken down by contractual maturity as of 31 December 2017** / Figure 9




Source: ČEB

**2.1.3. Key Markets on Which the Bank Operates**

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

Compared to other banks operating in the Czech banking sector, ČEB is considered a medium-sized bank. ČEB's share of the total balance sheet assets of banks in the Czech Republic decreased year-on-year. During 2017, the share dropped from 1.34% to 0.89%.

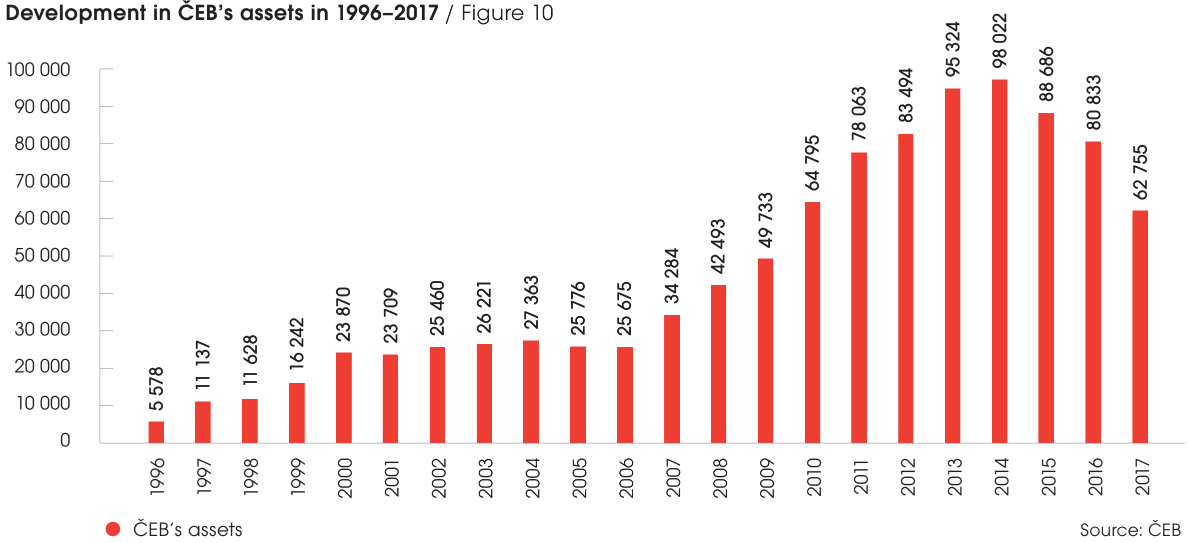
The decrease is consistent with the Bank's new business orientation in recent years towards the Czech SME sector and the emphasis placed by the Bank's management on increasing the quality of the loan portfolio and support for exporters in entering new markets. In 2017, the Bank provided export financing to six new territories: Armenia, Indonesia, Kyrgyzstan, Lithuania, Peru and UAE.

Table 2

| | 2016 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | banks total | ČEB | ČEB share | banks total | ČEB | ČEB share |
| Total balance sheet assets (CZK mil.) | 6 020 061 | 80 833 | 1.34% | 7 063 000 | 62 755 | 0.89% |

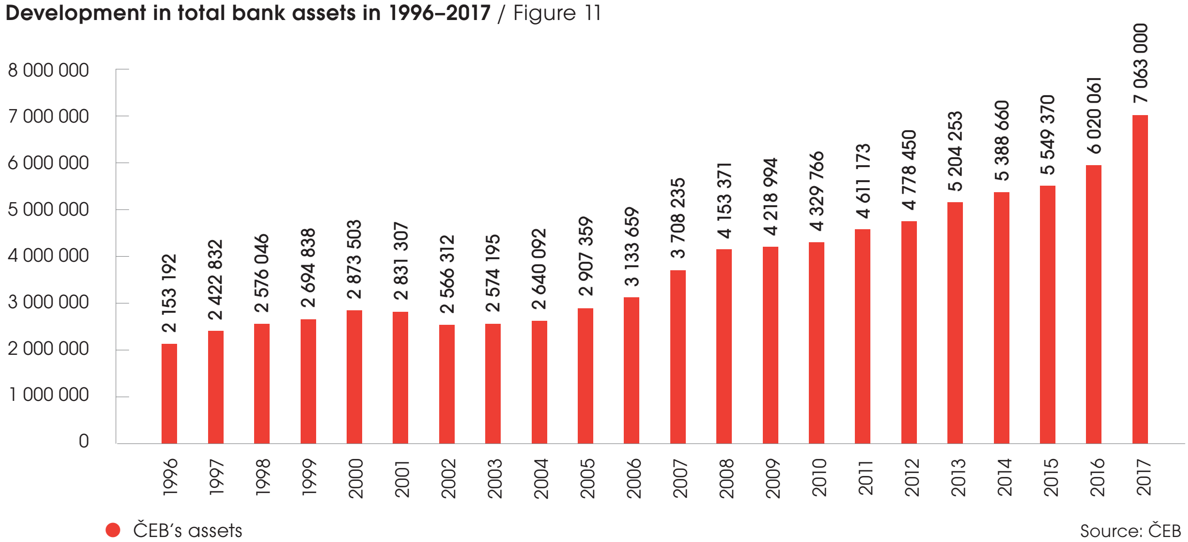
Source: ČEB and ČNB

**Development in ČEB's assets in 1996–2017** / Figure 10




Source: ČEB

**Development in total bank assets in 1996–2017** / Figure 11




Source: ČEB

The Bank's role within the Czech banking sector is – compared to commercial banks – specific, predominantly for the following reasons:

- ČEB's position in the area of supported financing is stipulated by Act 58/1995 Coll., on Insuring and Financing Exports with State Support. The Act determines the supported financing methods offered by ČEB including the provision of financial services related to exports under the conditions stipulated by this Act. In comparison with commercial banks, the range of activities performed by ČEB is exceptionally narrow in terms of both the products provided and their specifics and from the viewpoint of ČEB's clients.

- Export financing can be used by entities applying for supported financing that have a registered office in the Czech Republic or, in the event of re-financing loans, their local banks. In addition, these exporters have to be able to sell their goods on international markets, prevailing over their competitors through the high quality of product and timeliness of delivery. In respect of pricing, ČEB offers financing of exports under the conditions set out by international treaties ("OECD Consensus") based on CIRR.

- The Czech Republic accepted the commitment to finance exports of Czech exporters in line with international rules, principally the OECD Consensus which stipulates the provision of medium-term and long-term export loans. For this reason, the financing of export loans under the OECD Consensus is naturally the core segment of ČEB's activities. Financing of other loan types is offered by ČEB under commercial conditions.

Information on ČEB's position in the local banking sector can be obtained from the statistical data on client loans published by the Czech National Bank. This information demonstrates the fact that due to ČEB's specific position of a dominant bank engaged in export financing, its position on the Czech banking market is in many aspects a lot more significant than what can be inferred from the Bank's share in the total balance assets of all banks in the Czech Republic.

Table 3

| | | 2016 | | | 2017 | |
|---|---|---|---|---|---|---|
| **Client loans – by maturity** (in CZK million) | **Banks total** | **ČEB** | **ČEB share** | **Banks total** | **ČEB** | **ČEB share** |
| **Balance of client loans and receivables** | 2 950 343 | 70 970 | 2.4% | 3 085 510 | 54 087 | 1.8% |
| Of which in CZK | 2 371 923 | 1 521 | 0.1% | 2 503 441 | 1 490 | 0.1% |
| Of which short-term loans (up to 1 year) | 272 208 | 3 | – | 259 953 | 3 | – |
| medium-term loans (1–5 years) | 235 832 | 715 | 0.3% | 238 770 | 594 | 0.2% |
| long-term loans (over 5 years) | 1 863 884 | 803 | – | 2 004 718 | 893 | – |
| Of which in foreign currency | 578 419 | 69 449 | 12.0% | 582 069 | 52 598 | 9.0% |
| which short-term loans (up to 1 year)) | 81 252 | 143 | 0.2% | 104 415 | 111 | 0.1% |
| medium-term loans (1–5 years) | 150 608 | 295 | 0.2% | 146 989 | 232 | 0.2% |
| long-term loans (over 5 years) | 346 560 | 69 011 | 19.9% | 330 665 | 52 254 | 15.8% |

Source: ČEB

Table 4

| | | 2016 | | | 2017 | |
|---|---|---|---|---|---|---|
| **Client loans to residents – by purpose** (in CZK million) | **Banks total** | **ČEB** | **ČEB share** | **Banks total** | **ČEB** | **ČEB share** |
| **Total in CZK + foreign currency, only residents** | ČNB ARAD | ČEB reports | | ČNB ARAD | ČEB reports | |
| **Balance of resident loans and receivables** (all currencies) | 2 631 825 | 1 600 | 0.1% | 2 789 516 | 1 603 | 0.1% |
| Of which total other loans | 1 065 949 | 1 599 | 0.2% | 1 112 919 | 1 603 | 0.1% |
| Of which investment | 657 814 | 300 | – | 699 360 | 148 | – |
| total current assets, seasonal costs, export, import | 261 884 | 1 297 | 0.5% | 276 476 | 1 450 | 0.5% |
| total other loans (financial and special purpose) | 97 840 | – | – | 84 311 | 2 | – |
| total for trade receivables | 26 558 | 3 | – | 25 075 | 3 | – |

Source: ČEB

Table 5

| | 2016 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Client loans to non-residents – by purpose** (in CZK million) | **Banks total** | **ČEB** | **ČEB share** | **Banks total** | **ČEB** | **ČEB share** |
| **Total in CZK + foreign currency, only non-residents** | ČNB ARAD | ČEB reports | | ČNB ARAD | ČEB reports | |
| **Balance of non-resident loans and receivables** (all currencies) | 318 518 | 69 370 | 21.8% | 295 994 | 52 484 | 17.1% |
| Of which total other loans | 285 077 | 69 370 | 24.3% | 259 112 | 52 484 | 20.3% |
| Of which investment | 107 305 | 7 095 | 6.6% | 104 597 | 4 456 | 4.3% |
| total current assets, seasonal costs, export, import | 104 524 | 62 171 | 59.5% | 89 018 | 47 947 | 53.9% |
| total other loans (financial and special purpose) | 49 904 | – | – | 47 536 | – | – |
| total for trade receivables | 2 596 | 105 | 4.0% | 1 090 | 81 | 7.4% |

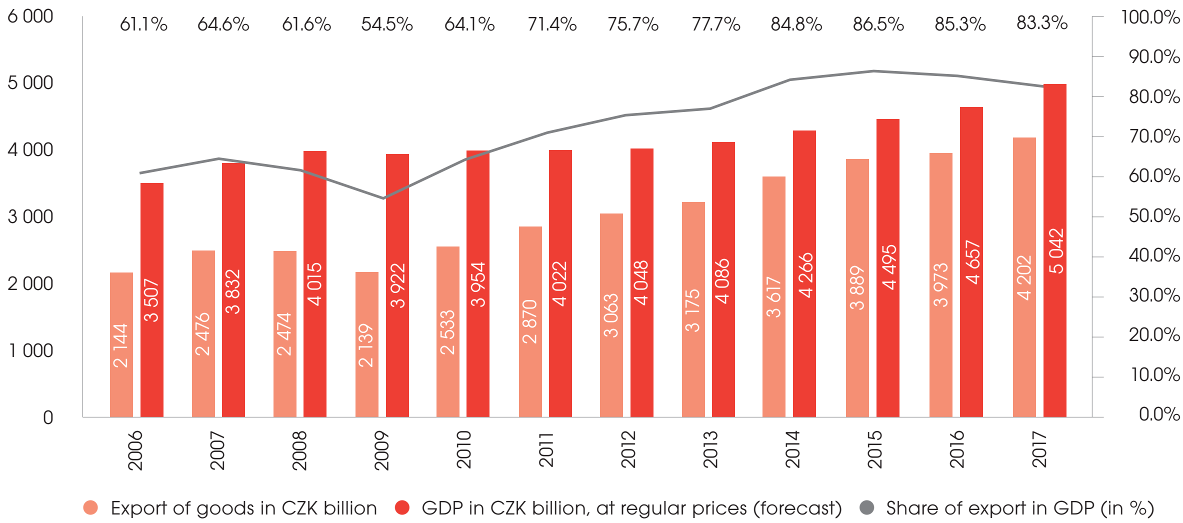
Source: ČEB

**b) Breakdown of Czech export and the Bank's state support in 2017 by territory**

**Gross domestic product and export**

The year 2017 saw continuous growth of exports, which has been almost the only positive component in generating the country's GDP in the past years.

**GDP Development (at regular prices) and Development in Export of Goods** / Figure 12




Source: Czech Statistical Office, Czech Ministry of Finance

An additional increase in the exports for 2017, as expressed in absolute values, was achieved in all groups of countries included in our statistics, with the exception of "other advanced market economies", where the export figures saw a minor decline. The share of countries on which ČEB's export support is primarily focused – CIS countries, European transitory economies, developing countries and other advanced market economies – also slightly decreased, year-on-year.

Table 6

| | Czech Republic's exports in CZK billion | | Share in Czech Republic's exports | |
|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 |
| Neighbouring countries | 2 015 | 2 145 | 50.7% | 51.0% |
| EU 15 countries | 2 517 | 2 674 | 63.4% | 63.6% |
| EU 28 countries | 3 323 | 3 517 | 83.6% | 83.7% |
| CIS countries | 113 | 127 | 2.8% | 3.0% |
| European transitory economies | 21 | 24 | 0.5% | 0.6% |
| Developing countries | 168 | 174 | 4.2% | 4.1% |
| Other advanced market economies | 216 | 215 | 5.4% | 5.1% |

Source: Czech Statistical Office

Based on the analysis of the Czech exporters' performance with regard to the target countries whose share of the aggregate Czech exports exceeds 1%, it should be noted that most of them saw a year-on-year increase in exports. A rather significant year-on-year decrease was recorded in exports to Slovakia (a drop of 0.7 percentage points). Slovakia, the Russian Federation, Brazil and Cuba are the countries that constitute the greatest proportion of the total loan principal provided by the Bank (92%). The share of these countries in the Czech Republic's total exports was 9.9%.

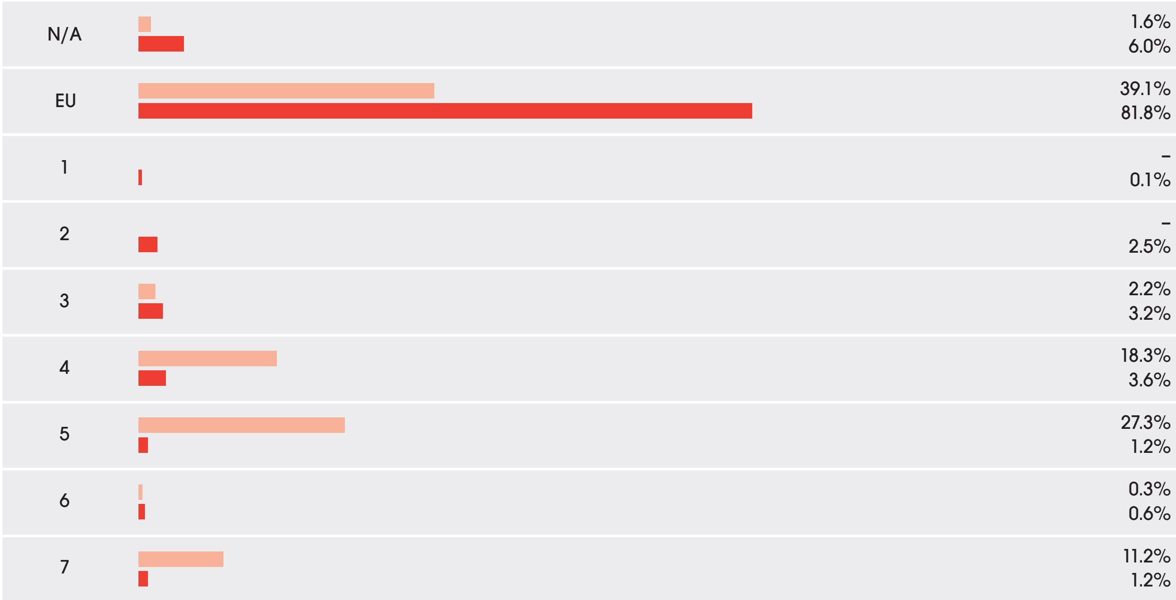
Table 7

| Countries with a share in the Czech Republic's exports over 1% in 2017 | Czech Republic's exports in 2016 (in %) | Czech Republic's exports in 2017 (in %) | Year-on-year changes in the share in the Czech Republic's exports in 2017 |
|---|---|---|---|
| Germany | 32.4% | 32.8% | 0.4% |
| Slovakia | 8.4% | 7.7% | (0.7%) |
| Poland | 5.8% | 6.0% | 0.2% |
| United Kingdom | 5.2% | 5.0% | (0.2%) |
| France | 5,2% | 5.1% | (0.1%) |
| Austria | 4.2% | 4.4% | 0.2% |
| Italy | 4.3% | 4.1% | (0.2%) |
| Russian Federation | 1.9% | 2.0% | 0.1% |
| Hungary | 2.9% | 2.9% | – |
| Netherlands | 2.9% | 2.9% | – |
| Belgium | 2.3% | 2.3% | – |
| Spain | 2.8% | 2.9% | 0.1% |
| USA | 2.2% | 2.1% | (0.1%) |
| Switzerland | 1.4% | 1.4% | – |
| Sweden | 1.5% | 1.6% | 0.1% |
| Romania | 1.3% | 1.4% | 0.1% |
| Turkey | 1.3% | 1.3% | – |
| China | 1.2% | 1.3% | 0.1% |
| Denmark | 1.0% | 1.0% | – |

Source: Czech Statistical Office

The Country Risk Classification published by the OECD remains to be important for the activities of the Bank. The structure of the loan portfolio documents how the Bank fulfils its mission to finance exports mainly to the countries with medium and high territorial risk, which are not a group of countries primarily targeted by export financing provided by commercial banks.

**Comparison of the Structure of the Czech Republic's Exports and ČEB's Loan Portfolio in 2017 by Country Risk Classification** / (OECD Classification as of 31 December 2017) / Figure 13




1 – Lowest risk, 7 – Greatest risk ● Czech Republic's exports ● ČEB's loan portfolio

Source: ČEB, Czech Statistical Office and OECD

**Situation on Financial Markets – Opportunities to Obtain Funding**

To raise funds on financial markets, the Bank uses the Euro Medium Term Note Programme (hereinafter the "EMTN Programme") along with interbank loans, which are intended for obtaining funds exceeding one year. For a short-term financing up to one year, the Bank uses the Euro Commercial Paper Programme (hereinafter the "ECP Programme"). All options are combined in order to always provide the Bank with sufficient funds in a convenient structure to secure its offer of financing to Czech exporters and to settle its liabilities on a continuous basis. In addition to the required financing time, the current situation on financial markets is taken into account.

The EMTN Programme currently amounts to EUR 4 billion and is used to refinance maturing previously obtained funding and to cover new loans denominated in EUR, USD and CZK. In total, CZK 52.34 billion (EUR 2 billion) was drawn under the EMTN Programme as of 31 December 2017. ČEB's bonds are listed on Luxembourg Stock Exchange. A list of individual traded and outstanding issues of ČEB's bonds as of 31 December 2017 is disclosed in the notes to the financial statements. Owing to low borrowing needs in 2017, long-term resources were not obtained.

In order to optimise liquidity management, in 2011 the Bank established the ECP Programme for the issuance of short-term securities which was updated in the course of 2017. Its framing amount remains at EUR 400 million. This programme allows for very flexible coverage of short-term liquidity needs of the Bank using favourable price conditions on the market. In 2017, no issues of such short-term bonds were placed by the Bank.

To increase the degree of diversity and prevent the dependence on limited funding resources, to a certain degree the Bank increases the resources of funding by deposits received from other banks and its own clients. Through such diversification, the Bank's flexibility is secured. Moreover, the Bank's dependency on a single type of funding resource is limited. In this respect the Bank gradually assesses the liquidity risk, principally by monitoring the changes in the funding structure.

The rating of ČEB and its issued bonds is set by Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd on a contractual basis. ČEB acknowledges that both agencies are rating agencies registered in accordance with Regulation (EC) 1060/2009 on credit rating agencies as amended by Regulation (EC) No. 462/2013. The Bank decided not to authorise any rating agency with a market share below 10% to perform its rating assessments.

ČEB discloses information on the current rating of the bonds issued by it on its website. As of 31 December 2017, the Bank's outstanding bonds have the following ratings:

Table 8

| Standard & Poor's | | Moody's | |
|---|---|---|---|
| Foreign currency – long-term payables | AA- | Foreign currency – long-term payables | A1 |
| Local currency – long-term payables | AA | Local currency – long-term payables | A1 |
| Short-term payables | A-1+ | Short-term payables | P-1 |
| Outlook | stable | Outlook | stable |

Source: ČEB

### 2.1.4. Newly-Implemented Products and Activities

In 2017, the Bank continued developing and adjusting its products in order to – in compliance with Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support and on Supplement to Act No. 166/1993 Coll., on the Supreme Audit Office, as amended – reflect the needs of Czech exporters and their suppliers, principally in the SME segment.

As in previous years, continuous development of the Bank's product portfolio was reflected in 2017 in the record-breaking number and volume of business cases in the SME segment.

### 2.1.5. Financial Results, Assets and Liabilities

**Balance of Assets and Liabilities**

ČEB's total assets amounted to CZK 62,755 million in 2017, which represents a year-on-year decrease of 22.4%. The balance sheet structure has been stable in the long term. The balance sheet items are derived from the planned estimate of the development in asset transactions to which liabilities are adjusted.

**Funding**

ČEB finances its business activities mainly through liabilities in the form of issued bonds and payables to financial institutions and non-banking entities, which represent over 89% of the total volume of its funds. In 2017, the key source of funding comprised the issuance of bonds denominated in foreign currencies and in Czech crowns. As of 31 December 2017, the bonds amounted to CZK 51,914 million, which covers approximately 105% of the Bank's borrowing needs. In 2017, the Bank continued to use its EMTN Programme for the issuance of bonds (no new issuance was realised within the programme in 2017), which, in combination with the ECP Programme for the issuance of securities with maturity under a year, increases the borrowing efficiency and flexibility even during periods of financial instability.

The Bank increases its funding base by loans received from credit institutions and interbank deposits. As of 31 December 2017, the funds raised from those sources amounted to CZK 1,919 million in total. Deposits received from clients amounted to approximately CZK 1,462 million and played a secondary role.

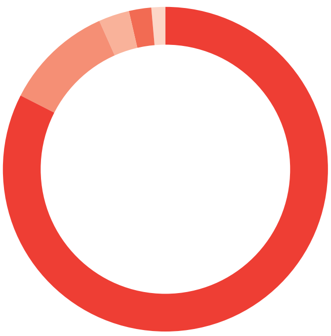
The Bank reported equity in the total volume of CZK 6,714 million. In line with IFRS rules, valuation differences on the revaluation of liabilities arising from interest rate swaps, which are used by the Bank for managing its interest rate risk, are recognised under equity.

Table 9

| **Liabilities**<br>In CZK million | Balance at<br>31 December 2016 | Balance at<br>31 December 2017 | Year-on-year<br>index |
|---|---|---|---|
| | Column 1 | Column 2 | Col. 2/Col. 1*100 |
| Financial liabilities held for trading | 239 | 64 | 26.80 |
| Financial liabilities at amortised cost | 72 833 | 55 312 | 75.94 |
| *of which: payables to financial institutions* | *4 431* | *1 919* | 43.31 |
| *payables to clients* | *2 115* | *1 462* | 69.11 |
| *payables not classified by sector* | *19* | *17* | 87.30 |
| *payables from issued debt securities* | *66 268* | *51 914* | 78.34 |
| Hedging derivatives with negative fair value | 903 | 313 | 34.67 |
| Other liabilities | 268 | 161 | 60.13 |
| Reserves for liabilities | 95 | 191 | 201.54 |
| Current income tax liabilities | – | – | – |
| **Total liabilities** | **74 338** | **56 041** | **75.39** |
| Share capital | 5 000 | 5 000 | 100.00 |
| Revaluation gains and losses | (98) | (137) | 139.22 |
| Reserve funds | 739 | 760 | 102.84 |
| Other special funds from profit | 436 | 834 | 190.74 |
| Retained earnings | 418 | 257 | 61.52 |
| **Total equity** | **6 495** | **6 714** | 103.36 |
| **Total equity and liabilities** | **80 833** | **62 755** | **77.64** |

Source: ČEB

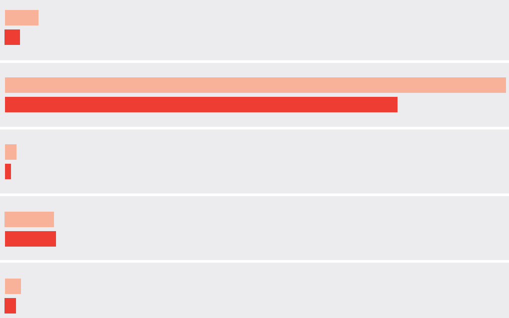
**Structure of Liabilities in 2017** / Figure 14




Source: ČEB

**Development in Main Categories of Liabilities in 2016–2017** / Figure 15

CZK million



| | | | CZK million |
|---|---|---|---|
| 2016 | 1 | | 4 431 |
| 2017 | | | 1 919 |
| 2016 | 2 | | 66 268 |
| 2017 | | | 51 914 |
| 2016 | 3 | | 1 524 |
| 2017 | | | 746 |
| 2016 | 4 | | 6 495 |
| 2017 | | | 6 714 |
| 2016 | 5 | | 2 115 |
| 2017 | | | 1 462 |

Source: ČEB

1 Loans received and interbank deposits
2 Bond issue
3 Other payables
4 Equity
5 Deposits received from clients

## Use of Funds

The major portion of assets includes receivables arising from loans. Their share in the total volume of assets is around 78.5%. The value of all receivables in the loan portfolio reported in the balance sheet decreased year-on-year by 21% to CZK 52,858 million. Receivables from loans provided to non-banking clients decreased by CZK 17,098 million, receivables from loans provided to financial institutions increased by CZK 251 million.

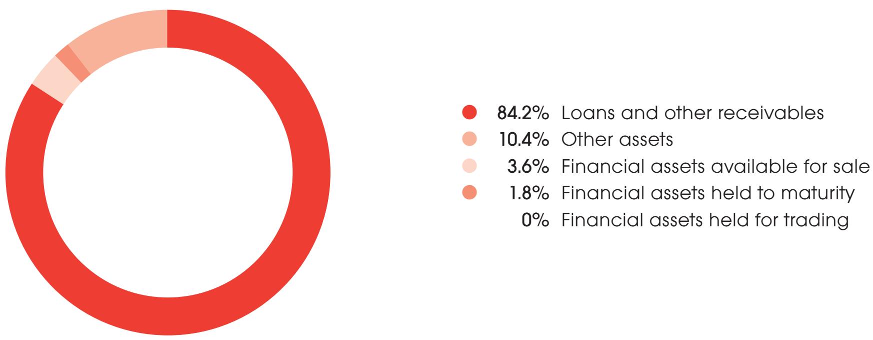
Temporarily available funds denominated in foreign currencies that are not used for loans are placed on the interbank market in the form of short-term deposits and repurchase operations, a portion of which is used for funding the liquid reserve held consisting of foreign securities. In line with the Bank's strategy, funds from equity represent a liquid reserve in the form of high-quality and liquid securities, primarily local but also foreign. The volume of the liquid reserve held amounted to CZK 3,400 million at the year-end. Non-invested capital funds are valorised on the interbank market and through reverse repurchase transactions with the central bank.

Table 10

| **Assets**<br>In CZK million | Balance at<br>31 Dec 2016 | Balance at<br>31 Dec 2017 | Year-on-year<br>index |
|---|---|---|---|
| | Column 1 | Column 2 | Col. 2/Col. 1*100 |
| Cash and deposits with the central bank | 8 610 | 3 719 | 43.19 |
| Financial assets held for trading | 12 | – | – |
| Financial assets available for sale | 3 542 | 2 255 | 63.66 |
| Loans and other receivables | 66 905 | 52 858 | 79.00 |
| *of which: receivables from loans* | *64 402* | *49 248* | *76.47* |
| *other receivables* | *2 503* | *3 610* | 144.23 |
| Financial investments held to maturity | 1 183 | 1 145 | 96.76 |
| of which: pledged assets | – | – | – |
| Positive fair value hedging derivatives | 1 | 2 | 214.59 |
| Tangible fixed assets | 16 | 23 | 141.84 |
| Intangible fixed assets | 57 | 54 | 95.71 |
| Other assets | 91 | 1 713 | 1 888.17 |
| Current tax receivable | 384 | 935 | 243.84 |
| Deferred tax asset | 32 | 51 | 158.65 |
| **Total assets** | **80 833** | **62 755** | **77.64** |

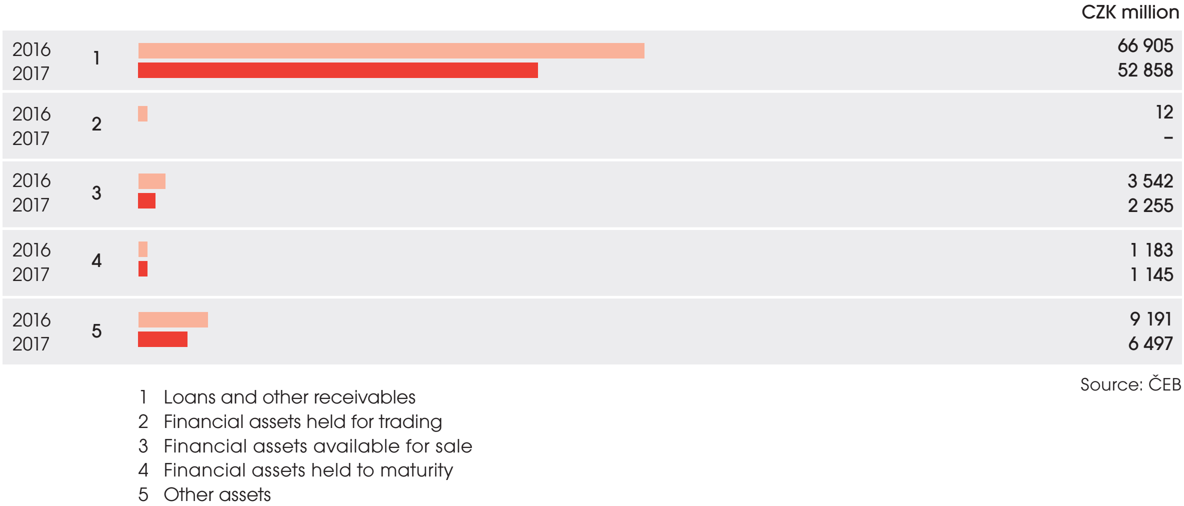
Source: ČEB

**Structure of Assets in 2017** / Figure 16




Source: ČEB

**Development in Main Categories of Assets in 2016–2017** / Figure 17




Source: ČEB

### Generation of Profit

In 2017, ČEB generated a gross profit of CZK 259 million. After deducting the preliminary due income tax of CZK 2 million, the Bank reported a profit after tax of CZK 257 million.

In the course of its business activities in 2017, the Bank reported interest income in the aggregate amount of CZK 2,053 million, i.e. a year-on-year decrease of 22.4%. The predominant portion of interest income (95%) represents interest on loans and other receivables, specifically on loans provided to non-banking clients, which amounted to CZK 1,925 million. The Bank raises the funds necessary for its business activities from capital markets. In 2017, interest expenses associated with such funds amounted to CZK 1,412 million, which is a year-on-year decrease of 18.6%. The year-on-year decrease in funding expenses is predominantly attributable to decreased funding needs. Interest expenses on issued bonds in the amount of CZK 1,064 million represent the largest portion of the funding expenses. The risk of interest rate fluctuation with regard to the funds raised on capital markets is hedged by interest-rate derivatives. In 2017, a temporary loss of CZK 220 million was incurred on account of these derivatives in respect of the level of interest rates. Net interest income for 2017 amounted to CZK 641 million.

Net income from fees and commissions amounts to CZK 11 million. Another significant component of the financial result is net operating income of CZK 68 million. It principally consists of net profit from financial transactions.

For its operations, the Bank incurred expenses in the amount of CZK 411 million, including administrative expenses of CZK 302 million, depreciation of tangible and intangible assets in the amount of CZK 43 million and other operating expenses in the amount of CZK 66 million.

In 2017, the costs of provisioning amounted to CZK 50 million, which corresponds with the prior year's loss of CZK 49 million. This positive development results from the conservative strategy and improved risk management in providing loans applied in the past four years, during which the Bank did not have to recognise any provision for newly provided loans.

The loss arising from the operation of long-term supported exports financing in line with Act 58/1995 Coll. is covered by subsidies from the state budget. The state subsidy primarily consists of the net balance between interest income gained from loans provided to banking and non-banking entities under conditions that are common on international markets for officially supported export credits, and costs incurred on raising funds on the financial market, plus the costs of provisioning for selected loan receivables. In 2017, ČEB did not assert its claim to the subsidy; contrarily, it generated a profit from this activity of approximately CZK 20 million, which is part of the Bank's total profit for 2017 before tax.

Table 11

| **Profit/loss**<br>In CZK mil. | Balance at<br>31 December 2016 | Balance at<br>31 December 2017 | Year-on-year<br>index |
|---|---|---|---|
| | Column 1 | Column 2 | Col. 2/Col. 1*100 |
| Net interest income | 912 | 641 | 70.29 |
| Net fee and commission income | 13 | 11 | 84.62 |
| Operating income | 154 | 68 | 44.16 |
| *of which: state subsidies* | – | – | – |
| Operating expenses | (419) | (411) | 98.20 |
| Loan and guarantee impairment losses | (49) | (50) | 102.25 |
| Profit before tax | 611 | 259 | 42.37 |
| Income tax | (193) | (2) | 1.03 |
| **Net profit/loss for the period** | **418** | **257** | **61.49** |

Source: ČEB

## 2.2. Factors Having an Impact on ČEB's Business and Financial Position in 2018

The Bank's activities in 2018 and its business and financial position will be affected by the below factors.

- As part of the appointment of the new government of the Czech Republic, it can be expected that the future mandate of the Bank and its medium-term business strategy will be (re)defined, and the state's foreign trade interests will be updated with respect to the segment of state-supported financing and insurance of exports.

- The economic situation in the Czech Republic should remain positive, even though GDP growth could slow down. GDP growth will be supported especially by household consumption, which reflects the growth in the salary level both in the state sector and the private sector, as well as the low unemployment rate.

- The low unemployment rate brings a risk of lack of capacities of pro-export companies to implement their international contracts.

- The volume of the Bank's income is, to a significant extent, affected by the demand for products of state-supported financing at various points of the economic cycle, and the scope of the offer of export financing products from commercial banks or other sources of financing.

- The exchange rate of the Czech crown with respect to EUR and USD or further strengthening of CZK could lead (if an exporter's expenses and income are not harmonised) to a decrease in the price competitiveness of Czech exporters within the competition of international markets.

- The currency policy of the Czech National Bank involving a further increase of interest rates based on the inflation targets and handling certain obstacles in the form of potential bubbles (real estate prices), the policy of the European Central Bank regarding the termination of quantitative easing with a possible growth of interest rates and FED's position with respect to the number of steps related to the tightening of its currency policy, and the resulting CZK exchange rates with respect to EUR and USD determine the size of the crown equivalent of the Bank's balance sheet (total assets) sum, which is practically exclusively denominated in foreign currencies.

- In terms of foreign political events, the Bank monitors the parliamentary elections in Italy, presidential elections in Russia in March, the security situation in the Middle East and on the Korean Peninsula.

- From a business perspective, the Bank regularly monitors the ongoing negotiations about the United Kingdom's exit from the European Union, and the situation on markets where it already has exposures or records business opportunities. This primarily concerns selected countries in Africa, Latin America and the Commonwealth of Independent States. Business activities in Russia continue to be affected by international sanctions and similar uncertainties persist also with respect to export to Iran.

- The resolution of one of Česká exportní banka's exposures – the Adularya business case in Turkey.

- In terms of legislation and regulation of bank activities, it will be necessary to complete the implementation of IFRS 9, IFRS 16 – Leases effective from 1 January 2019 and EU Regulation 2016/679 (effective from 25 May 2018), which deals with the area of personal data protection.

Goals for 2018 in the business and financial area are as follows:

- Support the export strategy of the Czech Republic for 2012–2020 and the Bank's updated medium-term strategy and financial management strategy.

- The Company's business activity will focus on areas where Czech exporters have for various reasons no or only a limited offer of financing from commercial banking entities. ČEB will strive to cover this market gap in order to meet the needs of Czech exporters or manufacturers with respect to the territory, sector and strategy of the Czech Republic.

- Support Czech exporters in diversifying exports principally on markets outside of the EU and when entering territories with a higher degree of risk.

- Offer innovative products to exporters reflecting their needs, including appropriate financing structures that will strengthen their competitiveness on foreign markets.

- Pay continuous attention to the support of the small and medium-sized enterprise segment, where further growth in the volume of financing with state support is expected to continue, and gain new clients to diversify the Bank's credit portfolio.

- Continue an active resolution of risky loan receivables in order to minimise losses and decrease the NPL indicator.

- Stabilise the size of the balance sheet (total assets) sum, which is based on assets denominated mostly in EUR and partially also in USD, and on the volume of loan principals.

- Achieve a slight pre-tax profit through the optimisation of costs via cost management and the system of central procurement based on the achieved income while complying with all regulatory conditions that banking entities are subject to.

- With respect to the state budget, tie grant needs primarily to settling loan losses based on an adequate support of Czech export and ensuring the best possible financing conditions for exporters in line with internationally valid rules.

# 3 | 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 concept in the Bank in all risk management segments is based on the rules of prudent operation determined by the regulator. In its risk management, the Bank traditionally adheres to the principle of a limited risk profile, which is based on the system of internal limits for individual types of risks, product and debtors.

The risk management process in the Bank is independent of 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 in relation to assessing the credit risk of counterparties, with the Credit Analysis Department in charge of analysing individual transactions. The Banking Risk Management Department manages credit risk at the portfolio level, market risks, operational risks, liquidity risks and concentration risks. 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 acceptable level of risk, including credit risk, market risk, operational risk, concentration risk and the risk of liquidity and excessive leverage.

In order to comply with the statutory obligation in the planning and on-going 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 by the Bank 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 as part of the 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 2017 was sufficient to cover the risks to which the Bank is exposed.

In 2017, the Bank introduced the Internal Liquidity Adequacy Assessment Process (ILAAP). The system is used to meet the requirements for maintaining a reliable and specific framework for the management of liquidity and financing risks, including the process of identifying, measuring and reviewing liquidity and financing risks.

During 2017, the Bank did not exceed the limit for large exposures. As of 31 December 2017, the Bank did not exceed any regulatory limit.

Individual types of risks are managed by the Bank in line with the applicable legislation, the Bank's regulations and best practice principles.

### 3.1.1. Credit Risk

Credit risk, i.e. the risk of suffering losses owing to a counterparty's default in meeting its obligations under a credit agreement based on which the Bank 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 rating 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 a financially related group of entities;
  - Monitoring credit exposure with respect to entities or financially- or otherwise-related groups of entities; and
  - Classifying receivables, provisioning and charging for reserves.

- Transaction risk management
  - Assessing and monitoring specific transaction risks, particularly in terms of the quality of collateral and determining the acceptable level of collateral; and
  - Regular on-site visits.

- Portfolio risk management
  - Monitoring portfolio credit risk;
  - Regular stress testing of portfolio credit risk; and
  - Determining limits to mitigate portfolio credit risk.

- Credit risk concentration management
  - Concentration risk in ČEB principally arises from credit risk concentration;
  - Monitoring credit risk concentration in terms of the debtor's country of the registered office and industry; and
  - Determining limits to mitigate credit risk concentration.

To minimise credit risk in providing supported financing, ČEB employs standard banking 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 credit portfolio analyses, including the results of the stress testing of portfolio credit risk, are submitted, on a regular basis, to the senior managers in charge of risk management.

#### 3.1.2. Market Risk

Market risk is the 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 on-going review of the application of limits, and analysing and regularly reporting 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

- Currency risk management
  - Sensitivity factors analysis,

- Aggregate market risk management
  - Economic Value of Equity (EVE) – ČEB uses the standard method as recommended by the Basel Committee on Banking Supervision (according to the Interest Rate Risk in the Banking Book standard of April 2016)

To minimise currency and interest rate risks, ČEB currently uses forward and swap transactions.

To manage market risk, ČEB maintains an established management system that monitors risk exposure on a daily basis, comparing it 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 the liquidity status and outlook on a daily basis, comparing them against the limits set. The basic pre-condition of liquidity risk management involves securing survival for at least two months.

- Liquidity risk is managed by:
  - Measuring and comparing the inflow and outflow of cash, ie monitoring net cash flows for a period at least five working days in advance;
  - Measuring and limiting the minimum survival period;
  - Quarterly measurements using worst-case scenarios (stress testing);
  - Maintaining the liquidity coverage ratio; and
  - Net stable funding ratio;
  - Gap analyses that measure the maximum cumulated outflow of cash and limits in individual currencies and time gaps;

ČEB maintains a sufficient liquid reserve namely in the form of highly-liquid securities. To deal with liquidity problems under extraordinary circumstances, ČEB has emergency plans in place. In 2017, 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 error 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 a system of risk indicators and warning limits that signal the greater probability of the occurrence of certain operational risks.

In 2017, ČEB updated its assessment of operational risks in the form of self-assessment.

The instances of operational risks were not significant in terms of the volume, amount and impact on the Bank's operations in 2017.

### 3.1.6. Capital Requirements and Capital Ratios

Unaudited Information / Table 12

| 31 December 2017 | CZK mil. |
|---|---|
| **Capital** | **6 592** |
| Tier 1 (T1) capital | 6 592 |
| Common equity tier 1 (CET1) capital | 6 592 |
| CET1 instruments paid up | 5 000 |
| Loss for the current period | – |
| Cumulated other comprehensive income (OCI) | 137 |
| Other reserves | 1 593 |
| Adjustments of the CET1 capital due to the utilisation of prudential filters | 190 |
| (-) Other intangible assets | 302 |
| Other temporary adjustments of the CET1 capital | 248 |

Source: ČEB

Unaudited Information / Table 13

| 31 December 2017 | CZK mil |
|---|---|
| **Total risk exposures** | **8 212** |
| Total risk-weighted exposures in respect of credit risk under STA | 6 209 |
| Exposures in respect of central governments and banks | 343 |
| Exposures in respect of institutions | 1 982 |
| Exposures in respect of enterprises | 2 550 |
| Default exposures | 1 168 |
| Covered bonds exposures | – |
| Other exposures | 166 |
| Total risk exposures in respect of position, foreign currency and commodity risks | – |
| Total risk exposures in respect of operational risk | 1 875 |
| Total risk exposures in respect of credit risk adjustment | 128 |

Source: ČEB

Unaudited Information / Table 14

| 31 December 2017 | CZK mil |
|---|---|
| **Capital ratios** | |
| Capital ratio CET1 | 80,26 |
| Capital conservation buffer | 205 |
| Surplus (+) / shortage (-) of the CET1 capital | 6 222 |
| Capital ratio T1 | 80,26 |
| Surplus (+) / shortage (-) of the T1 capital | 6 099 |
| **Total capital ratio** | **80,26** |
| **Total capital surplus (+) / shortage (-)** | **5 935** |

Source: ČEB

### 3.2. Risk Factors Potentially Affecting the Capacity of the Bank to meet its Liabilities to Investors arising from Securities

The Bank's capacity 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 of Persons with Managing Powers

With regard to the application of the proportionality principle, ČEB has not set up a Remuneration Committee and no part of remuneration is paid out in non-cash instruments to persons with managing powers.

In 2017, ČEB regarded the members of the Board of Directors and the members of the Supervisory Board as having managing powers. The Chairman of the Board of Directors is also the CEO, and the members of the Board of Directors also hold the positions of Deputy CEO.

**Board of Directors**

The Board of Directors is the statutory body managing the activities of ČEB and acting on its behalf.

Members of the Board of Directors hold the positions of the CEO and Deputy-CEOs for the respective areas of the Bank's activities they are entrusted with (refer to Section 1.5 Administrative, Management and Supervisory Bodies of ČEB and Related Committees). Members of the Board of Directors perform their duties with due managerial care, carefully and with the necessary knowledge. They are remunerated in line with the Contract on Holding the Office of a Member the Board of Directors concluded in compliance with the relevant provisions of Act No. 90/2012 Coll., on Business Corporations and Cooperatives. The Contract on Holding the Office of a Member of the Board of Directors (the "Contract") was approved by ČEB's Supervisory Board, for a functional period of five years. This

Contract provides for the rights and obligations of contractual parties in respect of holding the office of a member or of Board of Directors.

The Contract was approved by the Bank's Supervisory Board, which also approves the amount of remuneration of the members of the Board of Directors.

The total annual remuneration of the members of the Board of Directors is broken down into the base component and the variable component, which make up 50% and 50%, respectively. The remuneration of the CEO and Deputy CEOs was paid out in the form of the base component, which was the remuneration for the performed work. The amount of the remuneration was approved by the Supervisory Board in compliance with ČEB's Articles of Association. The remuneration policy for the members of the Board of Directors, referred to as the Principles of Remunerating ČEB's Managers and Members of ČEB's Bodies, is defined and approved by ČEB's General Meeting. The variable component of the remuneration of the CEO and Deputy CEOs is derived from assessing the performance of their activities, which is measured based on meeting the defined performance criteria. The performance criteria are always set for the calendar year and approved and subsequently assessed by the Supervisory Board of ČEB. The performance criteria include business indicators (for 2017: total volume of new transactions, number of new SME transactions, volume of loans drawn), indicators for the management and control system (for 2017: meeting the approved remedial measures of the type A and type B internal audit within the defined deadline) and portfolio and risk indicators (for 2017: proportion of NPL to the Bank's aggregate portfolio, amount of provisions, and proceeds from receivables in work-out management – without insurance proceeds from EGAP). The assessment of the performance criteria listed above is made once a year after the termination of the assessed year, utilising the results of the assessment as of 31 December of the relevant year.

50% of the variable component of the remuneration granted for the assessed year is paid out to the members of the Board of Directors immediately and the payment of the other 50% of the variable component is postponed. The deferred portion of the remuneration's variable component is evenly distributed over the 5-year deferral period and the same amount is paid out each year during this period. The claim for such payment always arises from the assessment of the defined financial and non-financial indicators of ČEB's performance and based on the methodology for retrospective assessment of the quality of loan production (malus methodology).

**Supervisory Board**

The Supervisory Board is ČEB's control body, supervising the execution of the Board of Director's powers in performing ČEB's business activities.

The Supervisory Board consists of seven members. Members of the Supervisory Board are elected by the General Meeting and include persons proposed by the shareholders. Members of the Supervisory Board are remunerated based on the Contract on Holding the Office of a Member of the Supervisory Board pursuant to the relevant sections of Act 90/2012 Coll., on Business Corporations and Cooperatives which is concluded for five years. The Contract on Holding the Office of a Member of the Supervisory Board was approved by ČEB's General Meeting. The members of the Supervisory board are remunerated in the amount approved by the General Meeting. The remuneration for performing the duties of a member of the Supervisory Board was paid out providing that the member was not subject to the limitation specified in Section 303 of Act No. 262/2006 Coll., the Labour Code, as amended, or a similar limitation defined in the relevant legal regulation. The total amount of the annual remuneration of the members of the Supervisory Board in 2017 is broken down into the base component and the variable component, which make up 60% and 40%, respectively.

The remuneration of the members of the Supervisory Board was paid out in the form of the base component which was the remuneration for the performed work. The remuneration policy for the members of the Supervisory Board, referred to as the Principles of Remunerating ČEB's Managers and Members of ČEB's Bodies, are defined and approved by ČEB's General Meeting. The variable component of the remuneration of the members of the Supervisory Board is derived from assessing the performance of their activities, which is measured based on meeting the defined performance criteria. The performance criteria are divided into three areas: strategy and conception (for 2017: updating the strategy for ČEB's direction and functioning), control system (for 2017: verifying the bank's procedure during the Adularya business case, cooperation with the Audit Committee). The assessment of performance criteria is made once a year, after the termination of the assessed year, utilising the results of the assessment as of 31 December of the relevant year.

50% of the variable component of the remuneration granted for the assessed year is paid out to the members of the Supervisory Board immediately and the payment of the other 50 % of the variable component is deferred. The deferral portion of the remuneration's variable component is evenly distributed over the 5-year postponement period and the same amount is paid out each year during this period; the claim for such payments always arises from the assessment of the defined financial and non-financial indicators of ČEB's performance.

## 3.4. Received Income of Directors with Managing Powers in Cash and in Kind for 2017

Table 15

| **Received income of persons with managing powers from the issuer (ČEB)** In CZK thousand | Members of the Board of Directors | Members of the Supervisory Board | Other persons with managing powers |
|---|---|---|---|
| In cash | 20 294 | 2 147 | – |
| In kind | 118 | – | – |
| Total | 20 412 | 2 147 | – |

Source: ČEB

Given that the Bank does not control any other entities, the individuals specified in the table above received no income in cash or in kind from controlled entities.

**Diversity Policy**

The members of the Supervisory Board are appointed and recalled by the Company's general meeting. The Supervisory Board is not subject to any diversity policy due to the fact that ČEB cannot affect the decisions of the Company's general meeting.

The members of the Board of Directors are appointed and recalled by the Supervisory Board and the Czech National Bank also gives its opinion on the nominated candidate. No discrimination of candidates occurs during the selection process. The selection is based primarily on the assessment of the qualification of potential members of the Board of Directors in terms of professional experience as well as the level of education achieved. ČEB does not apply a diversity policy. The professional experience of potential applicants are the selective parameter for choosing a suitable candidate for the position of a member of the Board of Directors.

## 3.5. Information Regarding Codes

The Corporate Governance Code of Česká exportní banka, a.s. (hereinafter the "Code") originates from the Corporate Governance Code of Companies, which is based on the OECD principles. Deviations from its principles are listed in the text. The Corporate Governance Code of Česká exportní banka, a.s. is publicly available in Czech on ČEB's website: https://www.ceb.cz/_sys_/FileStorage/download/3/2171/cz_kodex-spravy-a-_izeni-_eb.pdf.

The Bank's principles of corporate governance are based on OECD general principles of corporate governance with neither the Bank's legal position nor the shareholder structure modifying the main principles. The governance of the Bank is based on the following main pillars:

**Shareholder Rights**

The Bank's majority shareholder is the Czech state, which exercises its shareholder rights through the Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and the Ministry of Agriculture. The state exercises its shareholder rights at the Bank's general meeting both directly, applying the proportion of votes corresponding to the shares held by the Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs and the Ministry of Agriculture, as well as indirectly by means of Exportní garanční a pojišťovací společnost, a.s. The Bank's shares are not tradable and are held in the registered book-entry form. The shares are transferrable provided the conditions stipulated by law and reflected in the Articles of Association are met.

**Fair Treatment of Shareholders**

The Bank honours the rule of equal treatment of shareholders of the same class.

The Bank is aware of the fact that information on its activities may be abused, particularly information on the transactions being prepared, both by its employees and members of the Board of Directors as well as members of the Supervisory Board. The Bank has issued its Code of Ethics, which it updates as needed, monitoring compliance therewith, and which it has made public.

The Bank sees is as vital that the entire decision-making be not influenced by the potential interests of persons with the decision-making power who are engaged in the decision-making process, of members of the Board of Directors or of Supervisory Board members. Should this be the case, these persons are therefore obliged to announce, prior to the commencement of the decision-making process, that they have an interest in its result, and abstain from taking part in the decision-making process.

**Role of Stakeholders**

The Bank has based its successful business on a transparent relationship with stakeholders and on respecting their statutory rights. Shareholders and employees are directly involved in the company's corporate governance via representation in the Supervisory Board.

**Disclosures and Transparency**

First and foremost, the Bank observes the statutory reporting duty, as part of which it places the greatest emphasis on a timely, accessible, sufficient and balanced provision of information on its current activities as well as its anticipated development. The information that is provided on the basis of the same principles to the business community, public administration and, last but not least, to its employees and other stakeholders is also regarded as significant. Providing access to all the necessary information on this basis is considered by the Bank to be an efficient instrument not only as regards meeting its statutory obligations but mainly as a basis for establishing a good reputation.

**Liability of the Board of Directors and the Supervisory Board**

The Bank's Board of Directors has the responsibility towards the shareholder for:

a) The strategic management of the Bank reflected in the security, commercial and staff policies, the risk management strategy, the remuneration policy and the compliance policy, with senior managers responsible for their implementation;
b) The establishment and assessment of the management and control system, and for permanently maintaining its functionality, effectiveness and efficiency.
c) The compliance of the management and control system with legal regulations and for providing related activities with due professional care;
d) Establishing principles of human resources management including the stipulation of requirements in respect of the qualification, experience and knowledge required for individual positions and the manner in which they are to be demonstrated and verified.

The Supervisory Board oversees the performance of the Board of Directors' competencies and the performance of the Bank's business activities. First and foremost, it:

a) Monitors whether the management and control system is functional and efficient, performing regular assessment thereof;
b) Holds regular talks about the strategic direction of the Bank and about matters concerning the regulation of the risks to which the Bank is or may be exposed;
c) Takes part in directing, planning and assessing internal audit activities and assessing compliance;
d) Approves and regularly assesses the summary principles of remuneration concerning selected groups of employees the activities of which significantly affect the Bank's overall risk profile.

A detailed definition of the competencies, powers and responsibilities of the Board of Directors and the Supervisory Board are governed by the Bank's Articles of Association available in the Collection of Deeds as part of the Register of Companies.

## 3.6. Description of the Decision-Making Process with Regard to the Bank's Bodies and Committees

### 3.6.1. General Meeting

The General Meeting takes place at least once a year, however no later than four months from the last day of the reporting period, and has a quorum if the shareholders present hold shares in the total nominal value greater than 50% of the share capital of the Bank. If the General Meeting does not have a quorum, the Board shall call a substitute General Meeting in compliance with the relevant provisions of the special legal regulation.

The General Meeting votes by acclamation unless the General Meeting decides otherwise. The General Meeting adopts decisions by a majority of the votes by the shareholders who are present, unless the special legal regulation or the Articles require a larger majority; changes to the Articles, increases or decreases in the share capital and the dissolution of the Bank with liquidation is decided at the General Meeting if approved by the votes of at least two-thirds of the shareholders present. At General Meetings, proposals presented by the convenor of the General Meeting are voted on first and subsequently other proposals and counter-proposals are voted on in the order as submitted.

The state's shareholder rights are executed by the relevant organisational units of the state (hereinafter "ministries"): (i) Ministry of Finance, (ii) Ministry of Industry and Trade, (iii) Ministry of Foreign Affairs and (iv) Ministry of Agriculture. Each ministry exercises shareholder rights in the scope of the rights related to the Bank's shares recorded as of the balance sheet date on the ministry's asset account. To express the state's uniform will in the exercise of the voting right at the General Meeting about a decision pursuant to Section 9 (1) a) to q) of the Articles of Association, the state votes with 4,200 votes if all ministries vote unanimously with all of their votes pursuant to Section 6 (3) of the Articles of Association; to express the state's uniform will in the exercise of the voting right at the General Meeting about a different decision, the state votes with 4,200 votes if at least three quarters of the ministries vote unanimously, i.e. 3,150 votes. If unanimousness or tree-quarter majority, respectively, of all ministry votes is not achieved, it is assumed that the state has abstained from voting.

The votes of the ministries for the above purposes are divided as follows:

| | |
|---|---|
| Ministry of Finance | 2,184 votes; |
| Ministry of Industry and Trade | 1,260 votes; |
| Ministry of Foreign Affairs | 504 votes; |
| Ministry of Agriculture | 252 votes. |

### 3.6.2. Supervisory Board

The Supervisory Board consists of seven members.

Meetings of the Supervisory Board are convened by its Chairman or Vice-Chairman as necessary. The Supervisory Board has a quorum if at least four of its members are present, with resolutions adopted by a majority of all of its members. Each member has one vote. In the event of a tied vote, the Chairman does not have the casting vote. Minutes are taken on all meetings of the Supervisory Board and are to be signed by the Chairman of the Supervisory Board; a list of attendees is attached to the minutes.

In urgent cases that cannot be delayed the Chairman of the Supervisory Board, or the Vice-Chairman of the Supervisory Board, if the Chairman is not present, or the Chairman of the Board of Directors based on a request presented by the Chairman of the Supervisory Board, or the Vice-Chairman of the Supervisory Board, if the Chairman is not present, may initiate a per rollam vote by raising a written (i.e. including fax) or an electronic query in respect of all members of the Supervisory Board. Members of the Supervisory Board cast their votes in the written form and may use technological devices to do so. The members that cast their votes are regarded to be the members present. A resolution per rollam is adopted if at least four (4) members of the Supervisory Board agree with adopting the resolution and if at least five members of the Supervisory Board participate in the voting. Per rollam resolutions must be recorded in the Meeting Minutes of the nearest meeting of the Supervisory Board. Members of the Board of Directors can neither be elected nor dismissed by a per rollam resolution.

### 3.6.3. Board of Directors

The Board of Directors consists of five members, in 2017 it operated with four members.

Meetings of the Board of Directors are convened by its Chairman or an authorised Vice-Chairman as necessary. The Board of Directors decides by resolutions adopted by a majority of votes of its members. Each member of the Board of Directors has one vote. In the event of a tied vote, the Chairman does not have the casting vote. Minutes are taken on the course of the Board of Directors' meeting and its resolutions and are to be signed by the Chairman of the Board of Directors and the minute-taker; a list of attendees is attached to the minutes.

In urgent cases that cannot be delayed, the Chairman of the Board of Directors, or the authorised Vice Chairman, if the Chairman is not present, may initiate a per rollam vote by raising a written (i.e. including fax) or an electronic query in respect of all members of the Board of Directors. Members of the Board of Directors cast their votes in the written form and may use technological devices to do so. The members that cast their votes are regarded to be the members present. A resolution per rollam is adopted if at least four members of the Board of Directors agree with adopting the resolution and if at least four members of the Board of Directors participate in the voting. Per rollam resolutions must be recorded in the Meeting Minutes of the nearest meeting of the Board of Directors.

### 3.6.4. Audit Committee

The Audit Committee consists of four members.

Meetings of the Audit Committee take place as necessary, at least four times a year. If necessary, the Chairman of the Audit Committee, or the authorised member of the Audit Committee, if the Chairman is not present, will operatively convene an extraordinary meeting. The Audit Committee has a quorum if an absolute majority of its members is present.

Resolutions of the Audit Committee are adopted by an absolute majority of the votes of the members present. Each member has one vote. In the event of a tied vote, the Chairman does not have the casting vote. Minutes are taken on all meetings of the Audit Committee and are to be signed by the Chairman of the Audit Committee; a list of attendees is attached to the minutes.

In urgent cases that cannot be delayed, the Audit Committee may initiate a per rollam resolution. The per rollam resolution is adopted if an absolute majority of the Audit Committee members agree with its adoption.

### 3.6.5. Credit Committee

The Credit Committee consists of seven members, in 2017 it operated with six members

Credit Committee meetings take place as necessary, usually once a week. The Credit Committee has a quorum if at least four of its members are present, of which at least one is a Credit Committee member for the Risk Management Section, one is a Credit Committee member for the Trade Section and one is a Credit Committee member from among the Board of Directors. Each member has one vote. The Credit Committee adopts conclusions by the voting of its members on individual issues of the agenda. A resolution is adopted if approved by the votes of the absolute majority of members present, provided that the proposal was voted for by one member of the Credit Committee from among the members of the Board of Directors and at least one Credit Committee member for the Risk Management Section. In the event of a tied vote, the Chairman has the casting vote.

In urgent cases that cannot be delayed the Credit Committee may make a per rollam resolution. The per rollam resolution is adopted if at least four members of the Credit Committee approve it and if it was voted for by one Credit Committee member from among the members of the Board of Directors and at least one Credit Committee member for the Risk Management Section.

#### 3.6.6. Assets and Liabilities Management Committee (ALCO)

The ALCO consists of seven members.

ALCO meetings take place as needed, usually once a month. The ALCO has a quorum if at least four of its members are present, of which one is the Chairman or the Vice-Chairman of the ALCO, one is an ALCO member for the Finance and Management Support Section and one is an ALCO member for the Risk Management Section. Each ALCO member has one vote.

The ALCO adopts conclusions by the voting of its members on individual issues of the agenda. A proposal presented by the ALCO Chairman, or by the ALCO Vice Chairman, if the Chairman is not present, is voted on first and subsequently the counter-proposals are voted on in the order as submitted. A resolution is adopted if approved by an absolute majority of the votes of the ALCO members present. If the resolution concerns selected issues specified in the ALCO Rules of Procedure, it may be adopted only if the Head of the Banking Risk Management Section approves it.

In urgent cases that cannot be delayed, the ALCO Chairman, or the Vice Chairman, if the Chairman is not present, may initiate a per rollam resolution. The per rollam resolution is adopted if it is approved by at least four ALCO members including the Chairman of the ALCO. If the resolution concerns selected issues specified in the ALCO Rules of Procedure, it may be adopted only if the Head of the Banking Risk Management Section approves it.

#### 3.6.7. Information Technologies Development Committee (ITDC)

The ITDC consists of seven members.

ITDC meetings take place as needed and are convened by the ITDC's Chairman, or the Vice-Chairman, if the Chairman is not present.

ITDC meetings are managed by the ITDC's Chairman, or the Vice-Chairman, if the Chairman is not present. The ITDC has a quorum if at least four of its members are present. Each ITDC member has one vote. A resolution is adopted if approved by an absolute majority of the votes of the ITDC members present.

In urgent cases that cannot be delayed, the ITDC Chairman, or the Vice-Chairman, if the Chairman is not present, may initiate a per rollam resolution. The per rollam resolution is adopted if at least four ITDC members agree with its adoption.

#### 3.6.8. Operational Risk Management Committee (ORCO)

The ORCO consists of seven members.

ORCO meetings take place in line with the dates stipulated in the operational risk annual plan, however at least once every three months. If necessary, the ORCO's Chairman, or the Vice-Chairman, if the Chairman is not present, will operatively convene an extraordinary meeting.

The ORCO has a quorum if at least four of its members are present, of which one is an ORCO member for the Risk Management Section. Each ORCO member has one vote. Conclusions on each issue on the agenda are voted on individually. A proposal presented by the ORCO Chairman is voted on first and subsequently the counter-proposals are voted on in the order as submitted. A resolution is adopted if approved by an absolute majority of the votes of the ORCO members present and if at least one ORCO member for the Risk Management Section has voted for adopting the resolution.

In urgent cases that cannot be delayed, the ORCO Chairman, or the Vice Chairman, if the Chairman is not present, may initiate a per rollam resolution. The per rollam resolution is adopted if at least four ORCO members approve its adoption and if the ORCO Chairman and at least one ORCO member for the Risk Management Section have voted for adopting the resolution.

## 3.7. Authorised Auditors

In a 2017 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
Karolinská 654/2
186 00 Prague 8 – Karlín
Czech Republic

The contract was signed for the period from 2017 to 2020. This company was the auditor of ČEB's financial statements in 2016 as well. In 2017, Deloitte Audit, s.r.o. charged fees for services provided under the Audit Services Contract in the following scope:

Table 16

| Expenses in CZK thousand net of VAT: | 2017 | 2016 |
|---|---|---|
| Obligatory audit of the year-end financial statements | 1 680 | 1 800 |
| Other assurance services | 80 | 150 |
| Other non-audit services | – | 83 |
| Total | 1 760 | 2 033 |

Source: ČEB

In 2017, Deloitte Advisory, s.r.o. provided the Bank with training services in the amount of CZK 5 thousand (in 2016: advisory services in the amount of CZK 524 thousand).

## 3.8. Court and Arbitration Proceedings

List of significant court and arbitration proceedings that ČEB participates in as of 31 December 2017

**1. Plaintiff: Participants of the insolvency proceedings with Slovakia Steel Mills, a.s., in bankruptcy**

- The individual disputes concerning the denial of ČEB's receivables/collateral, with the maximum impact in the total amount of EUR 15 million;
- The individual proceedings are still ongoing.

**2. Plaintiff: J & T Financial Group, SE**

- ČEB won a dispute at the Arbitration Court of the Czech Chamber of Commerce, the plaintiff filed a lawsuit at the General Court for the invalidity of the arbitration finding; the disputed amounts total EUR 25 million without interest and fees;
- Proceedings at the first instance are still ongoing.

**Active participation:**

**1. Defendant: Several disputes within the insolvency proceedings with Slovakia Steel Mills, a.s., in bankruptcy (Slovakia)**

- The individual proceedings are still ongoing, maximum impact in the total amount of EUR 15 million.

**2. Defendant: M.F.M, Tourism, Hotels and Resorts and Developer (Tunisia)**

- Ongoing proceedings about the acceptance of the arbitration finding issued in favour of ČEB, possible impact in the amount of EUR 11,894,509.92 with interest and fees.

**3. Defendant: B.G.M. holding, a.s.**

- Impact on ČEB's financial situation of USD 5,337,994.87 with interest and fees;
- Proceedings at the first instance are still ongoing.

**4. Defendant: David Nefe, Mirko Medenica, Siniša Dučević – guarantors in the business case of Bridge Power Investments D.O.O., Serbia**

- Possible impact on ČEB's financial situation corresponding to the disputed amount of EUR 555,042 with interest and fees;
- Proceedings on the lawsuit are held by the Arbitration Court of the Czech Chamber of Commerce.

As for ČEB's other disputes, they concern relatively small financial amounts or the dispute proceedings are held in the name of ČEB but on behalf of EGAP (due to the relation between ČEB and EGAP arising from the insurance agreement).

Based on an assessment of the legal situation of the disputes where ČEB is the defendant, ČEB believes that its failure in these disputes is improbable and no provisions have therefore been recognised.

### 3.9. Contracts of Significance

In 2017, the Bank concluded no significant contracts (except for the contracts concluded as part of the regular business of an issuer) that could establish any liability or claim that would be significant with regard to the issuer's ability to meet its obligations towards the holders of the securities based on issued securities.

### Declaration of the Issuer's Authorised Persons

The undersigned authorised persons of Česká exportní banka, a.s. (issuer) declare that to the best of their knowledge the annual report gives a true and fair view of the Bank's financial situation, business activities and profit or loss in the previous reporting period, including the outlook of the financial situation, business activities and profit or loss.

In Prague on 26 March 2018

Ing. Karel Bureš
Chairman of the Board of Directors
and CEO

Ing. David Marek
Vice-Chairman of the Board of Directors
and Deputy CEO

# 4 | Financial Part

# 4 ● Financial Part

ČESKÁ EXPORTNÍ BANKA, A.S.

FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED 31 DECEMBER 2017

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**INCOME STATEMENT**

Under International Financial Reporting Standards as adopted by the European Union

| (CZK'm) | Note | 2017 | 2016 |
|---|---|---|---|
| Interest income | | 2 053 | 2 647 |
| Interest expense | | (1 412) | (1 735) |
| **Net interest income** | 6 | **641** | **912** |
| **Net fee and commission income** | 7 | **11** | **13** |
| Net profit from financial operations, including state subsidy | 8 | 68 | 125 |
| Other operating earnings | | – | 29 |
| **Net operating income** | | **68** | **154** |
| Other administrative expenses | | (302) | (310) |
| Other operating expenses | | (66) | (65) |
| Amortisation and depreciation | | (43) | (44) |
| **Operating costs** | 9 | **(411)** | **(419)** |
| Impairment losses on loans | 10 | 52 | (40) |
| Creation/release of provisions for guarantees provided | | (102) | (9) |
| **Profit before income tax** | | **259** | **611** |
| Income tax expense | 11 | (2) | (193) |
| **Net proft (loss) for the year** | | **257** | **418** |

**STATEMENT OF COMPREHENSIVE INCOME**

Under International Financial Reporting Standards as adopted by the European Union

| (CZK'm) | Note | 2017 | 2016 |
|---|---|---|---|
| **Net proft (loss) for the year** | | **257** | **418** |
| Unrealized net gains (losses) on the revaluation of assets and liabilities, net of tax | 25 | (38) | (15) |
| Unrealised net gains (losses) on cash flow hedging instruments, net of tax | 25 | (1) | 159 |
| **Other comprehensive income for the period, net of tax** | | | |
| – items that can in the future be reclassified to the profit and loss | | **(39)** | **144** |
| **Total comprehensive income** | | **218** | **562** |

*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 | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central bank | 13 | 3 719 | 8 610 |
| Financial instruments held for trading | 15 | – | 12 |
| Financial instruments available-for-sale | 16 | 2 255 | 3 542 |
| Loans and receivables | 14 | 52 858 | 66 905 |
| Financial instruments held-to-maturity | 16 | 1 145 | 1 183 |
| Hedging derivatives with positive fair value | 15 | 2 | 1 |
| Equipment | 17 | 23 | 16 |
| Intangible assets | 18 | 54 | 57 |
| Other assets | 19 | 1 713 | 91 |
| Current income tax assets | | 935 | 384 |
| Deferred income tax assets | 23 | 51 | 32 |
| **Total assets** | | **62 755** | **80 833** |
| **LIABILITIES** | | | |
| Financial liabilities held for trading | 15 | 64 | 239 |
| Financial liabilities at amortized cost and guaranteed liabilities | 20 | 55 312 | 72 833 |
| Hedging derivatives with negative fair value | 15 | 313 | 903 |
| Other liabilities | 21 | 161 | 268 |
| Provisions | 22 | 191 | 95 |
| **Total liabilities** | | **56 041** | **74 338** |
| Share capital | 24 | 5 000 | 5 000 |
| Revaluation reserve | 25 | (137) | (98) |
| Statutory reserve | 26 | 760 | 739 |
| Other special fund | 26 | 843 | 436 |
| Accumulated loss/retained earnings | | 257 | 418 |
| **Total equity** | | **6 714** | **6 495** |
| **Total liabilities and equity** | | **62 755** | **80 833** |

*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 2016** | | **4 000** | **(141)** | **739** | **577** | **(242)** | **4 933** |
| Change in Available for sale securities, net of tax | 25 | – | – | – | – | (15) | (15) |
| Change in cash flow hedges, net of tax | 25 | – | – | – | – | 159 | 159 |
| Net profit/(loss) for the year | | – | 418 | – | – | – | 418 |
| Total recognised profit/(loss) | | – | 418 | – | – | 144 | 562 |
| Increase of share capital | 24 | 1 000 | – | – | – | – | 1 000 |
| Transfer to other special fund | 26 | – | 141 | – | (141) | – | – |
| **At 31 December 2016** | | **5 000** | **418** | **739** | **436** | **(98)** | **6 495** |
| Change in Available for sale securities, net of tax | 25 | – | – | – | – | (39) | (39) |
| Net profit/(loss) for the year | | – | 257 | – | – | – | 257 |
| Total recognised profit/(loss) | | – | 257 | – | – | (39) | 218 |
| Influence of cross-rounding | | – | – | 1 | – | – | 1 |
| Transfer to other special fund | 26 | – | (398) | – | 398 | – | – |
| Transfer to statutory reserve | 26 | – | (20) | 20 | – | – | – |
| **At 31 December 2017** | | **5 000** | **257** | **760** | **834** | **(137)** | **6 714** |

*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 | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest received | | 1 270 | 1 341 |
| Interest paid | | (1 448) | (1 796) |
| Net fee and commission received | | 119 | 73 |
| Net trading and other income | | (32) | (801) |
| Recoveries on loans previously written off | | 2 490 | 3 600 |
| Cash payments to employees and suppliers | | (510) | (286) |
| Income tax paid | | (563) | (1 057) |
| Other taxes paid | | (18) | 16 |
| **Net cash used in operating activities before changes in operating assets and liabilities** | | **1 308** | **1 090** |
| **CHANGES IN OPERATING ASSETS AND LIABILITIES** | | | |
| Net decrease (increase) in loans to banks | | (1 074) | 1 054 |
| Net decrease (increase) in loans to customers | | 8 760 | 5 899 |
| Net decrease (increase) in other liabilities | | 209 | 5 |
| Net increase (decrease) in due to banks | | (2 188) | 2 474 |
| Net increase (decrease) in due to customers | | (1 286) | 1 023 |
| **Net cash used in operating activities** | | **5 729** | **11 545** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of fixed assets | | (73) | (33) |
| Purchase of securities | | (170) | (869) |
| Proceeds from matured securities | | 129 | 590 |
| Proceeds from sale of securities | | 1 215 | 1 664 |
| **Net cash used in investing activities** | | **1 101** | **1 352** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Receipts from issue of bonds | | – | 6 810 |
| Redemption of issued bonds | | (11 151) | (19 214) |
| Receipts from issue of ordinary shares | 26 | – | 1 000 |
| Receipts of state subsidy | 8 | 31 | 3 824 |
| **Net cash from financing activities** | | **(11 120)** | **(7 580)** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **(10)** | **1** |
| **Net increase in cash and cash equivalents** | | **(4 300)** | **5 318** |
| **Cash and cash equivalents at beginning of year** | 12 | **10 593** | **5 275** |
| **Cash and cash equivalents at end of year** | 12 | **6 293** | **10 593** |

*The notes are an integral part of the financial statements.*

## 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.

The Bank has a representative office in Moscow, which it opened in 2009 under the approval of the Central Bank of the Russian Federation.

The Bank is authorised 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 and the provision of investment services.

The activities of the Bank are primarily governed by Act No. 21/1992 Coll., on Banks, as amended, Act No. 256/2004 Coll., on Capital Market, as amended, Act No. 58/1995 Coll., on Insurance and Financing Exports with State Subsidies ("Act No. 58/1995 Coll."), and Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act on Business Corporations), 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 European Union law and international rules – mainly through the provision of credit facilities and guarantees. The General Meeting of the Bank makes decisions about profit allocation and in accordance with the Articles of Association the profit is primarily used to contribute to the statutory reserve, export risk reserve or to other funds.

Pursuant to Act No. 58/1995 Coll., the provision of officially supported financing by the Bank is conditional upon 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 is liable for the Bank's obligations of repaying funds obtained by the Bank and other liabilities arising from the Bank's operations in the financial markets. 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.

Standard & Poor's confirmed the "AA-" credit rating to the Bank and Moody's Investor Service confirmed the "A1" credit rating, both with stable outlook. The Bank's issued bonds are listed on the Luxembourg Stock Exchange (Société de le Bourse de Luxembourg).

## 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.

**Newly applied standards and interpretations the application of which had a significant impact on the financial statements**

In the year ended 31 December 2017, the Bank did not apply any new standards and interpretations, the use of which would have a significant impact on the financial statements.

**Newly applied standards and interpretations the application of which had no significant impact on the financial statements**

- IAS 7 Amendments to IAS 7 "Disclosure Initiative"
- IAS 12 Amendments to IAS 12 "Recognition of Deferred Tax Assets For Unrealised Losses"
- IFRS 12 Amendments to IFRS 12 (included in the annual IFRS improvements – the 2014-2016 cycle)

**Standards and interpretations that have not yet entered into force but have been adopted by the European Union**

- IFRS 9 "Financial Instruments", published on 12 November 2009, effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 9 – Financial Instruments and IFRS 7 Financial Instruments – Presentation – Mandatory Effective Date of IFRS 9 and Transition Disclosures, published on 28 October 2010; effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 9 – Financial Instruments, IFRS 7 – Financial Instruments – Disclosures and IAS 39 – Financial Instruments: Recognition and Measurement – Hedge Accounting, published on 19 November 2013; effective for annual periods beginning on or after 1 January 2018;
- IFRS 15 "Revenue from Contracts with Customers", published on 28 May 2014, effective for annual periods beginning on or after 1 January 2018;
- IFRS 16 "Leases", effective from 1 January 2019; and
- IFRS 4 Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts", effective from 1 January 2018.

The Bank has applied the requirements of IFRS 9 since 1 January 2018. The Board of Directors approved the Bank's business model in line with the specific purpose of the Bank as an institution established to support exports. The model comprises the provision of loans with the aim of collecting contractual cash flows including principals and interest.

Loan sales occur extraordinary, usually in meeting regulatory limits or in the process of dealing with impaired credit. Available funds are invested in high-yield bonds in order to collect principals and interest. Sales from this portfolio are not frequent and usually occur shortly before maturity. A portion of available funds is also invested in bonds that will be measured at fair value through other comprehensive income, in accordance with the plan to collect principals and interest and, on occasion, to sell them as part of liquidity management. Following the adoption of IFRS 9, the reclassification of purchased securities of approximately CZK 100 million from available-for-sale securities to assets measured at amortised cost is expected as of 1 January 2018. The impact of the fair value of these bonds and deferred tax, which is estimated in units of millions of CZK, will be derecognised through the valuation difference account.

No material financial assets with embedded derivatives were identified as of 31 December 2017 that the Bank would have been obliged to measure at fair value through profit or loss.

Given that the Bank did not modify any financial liability recorded on the face of its balance sheet, no impacts resulting from the change in the accounting policies are expected.

Market risks are limited by derivatives. If the Bank applies hedge accounting, it will continue to adhere to IAS 39 in the coming years. The Bank does not trade in equity instruments.

In accordance with IFRS 9, procedures for the recognition and disclosure of impairment of financial assets, trade receivables, financial guarantees, and credit commitments will be revised. As of 31 December 2017, the Bank does not record lease assets to the extent of IAS17 and does not expect that provisions for recognised lease assets to the extent required by IFRS 16 significantly affect the Bank's balance sheet and equity. The Bank has conducted a credit loss analysis for the past 10 years and has set out methods for assessing increased credit risk and for calculating 12-month and life-long expected losses. Furthermore, it segmented the portfolio of financial assets, classifying them under individual risk levels. In assessing credit risk, the Bank not only accounts for the events that have transpired, but, to an economically reasonable extent, it also takes into account macroeconomic indicators and various future-event scenarios. The processes for assessing increased credit risk from the date of the financial asset's initial recognition are based on a multi-factor analysis consisting of the assessment of the debtor's financial position and payment discipline, a drop in the debtor's rating, and, in respect of significant business cases, of variable expectations of changes in the business, financial or political conditions affecting the debtor. A debtor is identified as in default upon the next quantitative decline in the results of the analysis, in arranging modifications having a material impact on cash flows and when the debtor is declared bankrupt. The application of the IFRS 9 requirement for provisioning for financial assets, contracted assets, issued financial guarantees and credit commitments in respect of which credit risk has not significantly increased since their initial recognition will result in the recognition of provisions and reserves of approximately CZK 15–30 million. As a result of applying the method of reporting expected credit losses over the life of assets with increased credit risk or impaired assets, provisions and reserves are expected to be recognised approximately in the amount of CZK 75–120 million.

The Bank conducted a revenue analysis from the perspective of IFRS 15 "Revenue from contracts with customers". The standard will apply to some types of service charges. The volume of the titles concerned represents a negligible portion of the Bank's proceeds. Incremental costs are included in these earnings. The analysis revealed that it would not be necessary to modify the established accounting practices and therefore no impact from the application of this Standard is expected. Other costs that are not governed by other standards are charged to expenses when the service is received. The Bank analyses the issue of lease contracts under IFRS 16. It does not expect significant impacts from the identification of lease assets under this Standard.

**Standards and interpretations that are not yet effective**

The following standards, amendments and interpretations issued by the IASB but not yet adopted by the European Union had been issued as of the date of approval of these financial statements:

- IFRS 2 "Classification and Measurement of Share-Based Payment Transactions" effective from 1 January 2018;
- IFRS 15 Clarifications to IFRS 15 "Revenue from Contracts with Customers", effective from 1 January 2019;
- IAS 40 "Transfers of Investment Property", effective from 1 January 2018;
- Annual improvements to IFRS – 2014–2016 cycle, effective from 1 January 2017/2018;
- Annual improvements to IFRS – 2015–2017 cycle, effective from 1 January 2019;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration", effective from 1 January 2018;
- IFRIC 23 "Uncertainty over Income Tax Treatments", effective from 1 January 2019;
- IFRS 17 "Insurance Contracts", effective from 1 January 2019;
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation", effective from 1 January 2019;
- Amendments to IAS 28 "Long-Term Interests in Associates and Joint Ventures" effective from 1 January 2019; and
- Amendments to IFRS 10 a IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture", effective date not specified.

The Bank anticipates that the adoption of other standards, amendments to existing standards and interpretations in the period of their first-time adoption will have no material impact on the financial statements of the Bank prepared as of 31 December 2017, including comparative information.

**(b) Segment reporting**

Operating segments are reported in accordance with the internal reports regularly prepared and presented to the Bank's Board of Directors which represents a group of managers authorised 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 of officially supported financing eligible for subsidy.

**(c) Foreign currency translation**

**Functional and presentation currencies**

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 on the dates of the transactions. Foreign exchange rate gains and losses arising 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 the Czech crown to principal foreign currencies were as follows:

| | EUR | USD |
|---|---|---|
| 31 December 2017 | 25.540 | 21.291 |
| 31 December 2016 | 27.020 | 25.639 |

### (d) Derivative financial instruments

In the normal course of business the Bank enters into 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.

The Bank uses these financial instruments to minimise the impact of interest rate and currency risks so as not to exceed the acceptable level of market risk.

Financial derivatives are initially recognised at fair value in the balance sheet on the date on which the derivative contract is entered into and are subsequently re-measured at the existing fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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 and therefore the gains or losses from these derivatives are reported in the income statement under 'Net profit from financial operations including state subsidy'.

Derivatives accounted for under hedge accounting are those derivatives which are also in accordance with the rules of using hedge accounting: 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 recognised through equity. The gain or loss relating to the ineffective portion is recognised 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 recognised within 'Interest income' and 'Interest expense' in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that 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 made 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. If the financial asset is reduced due to impairment, interest income is recognised using the interest rate that was used to discount cash flows in order to determine impairment.

### (f) Fee and commission income

Fees and commissions, which are not part of the effective interest rate, are generally recognised on an accruals basis when the service is provided. Commitment commissions for loans that are not likely to be drawn are recognised as revenue on the date on which the liability matures. Advisory and service fees are recognised 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 the 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 include 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 amortised cost. The amortised cost is the cost net of principal payments, increased by the accrued interest and increased/decreased by the amortisation of discount/premium. The Bank uses the effective interest rate method to calculate the amortised 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 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 recognised at the settlement date. Upon initial recognition, financial assets or financial liabilities are measured at fair value, with financial assets or financial liabilities not at fair value through profit or loss adjusted for transaction costs. Upon the acquisition of a financial asset or liability, the Bank does not record the difference between the recognised fair value of the financial asset or liability and the measurement value as of the specific date using the measurement technique.

**Valuation of financial assets and financial liabilities as of the balance sheet date**

Financial investments held to maturity and Loans and other receivables and financial liabilities, other than liabilities at fair value through profit or loss, are reported at amortised cost using the effective interest rate method.

Financial assets available for sale, financial assets held for trading and financial liabilities at fair value through profit or loss are subsequently measured at fair value. Gains and losses arising from changes in fair values of financial assets available for sale are reported directly through equity until the financial asset is derecognised or impaired. However, 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 the 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 supply 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 the loan range.

**De-recognition of financial assets and liabilities**

Financial assets are derecognised when rights for the collection of cash flows cease to exist or when the Bank transfers all risks and benefits arising from their ownership. Financial liabilities are derecognised 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 amortised cost**

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

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 amortised 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 yet to be 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 recognised in the income statement.

The loans are written off following the application of all legal remedies available to collect receivables, having implemented all necessary procedures and after determining the amount of the 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 recognised in the income statement – is removed from equity and recognised in the income statement.

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

**Restructured loans**

Restructured loans are financial assets where the Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees (if any)[1]. In the event of a distressed restructuring, 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 the repo agreement using the effective interest rate method.

Securities borrowed are not recognised 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 capitalised on the basis of the costs incurred to acquir 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:

---

[1]) Definition according to Article 178, REGULATION (EU) No. 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL dated 26 June 2013 on prudential requirements for credit institutions and investment firms.

| | Years |
|---|---|
| Motor vehicles | 5 |
| Furniture and fittings | 2 – 10 |
| Office equipment | 2 – 3 |
| Other office equipment | 2 – 10 |
| 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 'Other operating earnings' or 'Other operating expenses'.

The net book values and useful lives of assets are 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 and deposits.

**(m) Employee benefits**

The Bank regulates the provision of employee benefits through its internal guidelines (e.g. contribution for catering, contribution for additional pension insurance, loan for housing purposes, etc.).

The Bank provides a contribution for additional pension insurance to its employees based on a defined contribution scheme. Contributions are charged to the income statement when paid.

The Bank recognises a provision for deferred bonuses and other long-term employment benefits, such as retirement bonuses. This provision is created by the simple total of liabilities under these benefits at the balance sheet date. The plan of other long-term benefits is not funded by any proceeds from assets. The present value of the provision is calculated on the basis of the 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.

Deferred tax related to the revaluation of items which are charged directly to equity is also charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

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

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

**(o) Financial liabilities at amortised cost – borrowings**

The category of financial liabilities at amortised cost includes loans from banks, clients, debt securities in issue and other financial liabilities. Borrowings are initially recognised at the fair value of consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised 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 funds;
- Minus relating fees paid by the Bank to acquire these funds;
- Minus allowances and provisions; and
- Minus the difference between income from financial derivative transactions and costs related to these transactions, foreign exchange rate differences and other costs that were incurred by the Bank on acquiring the funds.

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

**(r) Provisions**

Provisions are recognised 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 recognised 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 the history of past losses. Any increase in the liability relating to guarantees is recognised in the income statement.

The Bank enters into contingent financial relationships by granting credit commitments. Credit commitments are included in the accounting records 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 the conditions precedent have been met. The conditions precedent usually include an 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 entities 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 taken into account in assessing loan risks.

### (u) Provisions for guarantees given

Given the change in materiality, the Bank transferred the 'Recognition/release of provisions', including provisions for guarantees given, from 'Operating expense' to a separate income statement line.

## 3 / RISK MANAGEMENT

### (a) Strategy in using financial instruments

The Bank funds export loans by issuing debt securities and long-term borrowings; short-term borrowings from the inter-bank market and client deposits are used as additional sources of funding. The Bank stores available funds in bonds with low credit risk, primarily in state bonds or bank deposits. The Bank uses financial instruments to cover interest rate and foreign exchange rate differences.

The Bank deposits available 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 minimise the impact of changes in fair value on the income statement.

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

In 2017 and 2016, the Bank did not reclassify any securities.

### (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. 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 amount of the total limit for the client.

Credit risk management and 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 on an individual basis using rating models. The Bank has established a rating model for assessing the risks of corporate clients and banks, anda risk model for assessing the quality of projects.

The rating models are subject to validation and, if necessary, are updated. 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 regulation (Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012). For prudency reasons and in order to respect the regulatory 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 of exposure limits set by regulation. 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 and industry of the debtor), is restricted by concentration limits. Current exposures to limits are monitored on a daily basis. All limits are regularly reviewed at least once a year.

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

| (CZK'm) | | | | | | | **2017** |
|---|---|---|---|---|---|---|---|
| | | | Gross exposure total | | | Used to ensure that exposures | |
| | Balance sheet positions | Off-Balance sheet positions | Exposure total | Statement of financial position | Off-Balance sheet | Ensuring total | **Exposure value** |
| Exposures to central banks and governments | 12 876 | – | **12 876** | 4 116 | – | **4 116** | **8 760** |
| Exposures to public sector entities | 23 | – | **23** | – | – | – | **23** |
| Exposures to multilateral development banks | 319 | – | **319** | – | – | – | **319** |
| Exposures to institutions | 3 723 | 265 | **3 988** | – | – | – | **3 988** |
| Corporate exposure | 25 293 | 3 305 | **28 598** | 23 061 | 2 734 | **25 795** | **2 803** |
| Exposures in default | 19 780 | – | **19 780** | 18 918 | – | **18 918** | **862** |
| Other exposure | 1 177 | – | **1 177** | – | – | – | **1 177** |
| **Total exposure** | **63 191** | **3 570** | **66 761** | **46 095** | **2 734** | **48 829** | **17 932** |

| (CZK'm) | | | | | | | **2016** |
|---|---|---|---|---|---|---|---|
| | | | Gross exposure total | | | Used to ensure that exposures | |
| | Balance sheet positions | Off-Balance sheet positions | Exposure total | Statement of financial position | Off-Balance sheet | Ensuring total | **Exposure value** |
| Exposures to central banks and governments | 19 100 | – | **19 100** | 5 823 | – | **5 823** | **13 277** |
| Exposures to public sector entities | 23 | – | **23** | – | – | **–** | **23** |
| Exposures to multilateral development banks | 486 | – | **486** | – | – | **–** | **486** |
| Exposures to institutions | 2 565 | 606 | **3 171** | – | – | **–** | **3 171** |
| Corporate exposure | 32 685 | 4 693 | **37 378** | 30 316 | 3 987 | **34 303** | **3 075** |
| Exposures in default | 26 226 | – | **26 226** | 24 760 | – | **24 760** | **1 466** |
| Other exposure | 626 | – | **626** | – | – | **–** | **626** |
| **Total exposure** | **81 711** | **5 299** | **87 010** | **60 899** | **3 987** | **64 886** | **22 124** |

The maximum exposure to credit risk is presented in accordance with the rules of exposure laid down by Regulation (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

The level of credit risk undertaken is monitored on an ongoing basis.

The Bank's credit risk is reduced by the insurance of export credit risks by EGAP in favour of the Bankin terms of Act No. 58/1995 Coll. Furthermore, to hedge the credit risk the Bank uses other types of collateral according the type of financing, e.g. a lien on the subject of export, pledge of movable and immovable assets, financial collateral, third party guarantee, revenue pledge and assignment of insurance claims, etc.

### Power station construction project in Turkey

Regarding the recognition of credit losses, the Bank is still facing uncertainty in relation to the construction of the Yunus Emre power station in Turkey (gross exposure of EUR 461 million). The Bank, along with EGAP keep working closely with the Turkish party in implementing steps towards the sale of the debtor's assets. From the perspective of the Bank's risks, the 99% insurance of the receivable by EGAP is a significant mitigating factor as the Czech state guarantees its liabilities. As part of the Banks's participation in the amount of 1%, adequate allowances were recognised on a conservative basis. The Bank has reported an insurance event which, at the time of preparing the financial statements, was subject to investigation by EGAP.

### 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. In other cases, the financial collateral is received as a deposit bearing a base interest rate for the respective currency.

Credit risk from derivative positions is minimised by the Bank primarily by choosing credible counterparties and regularly monitoring their financial positions. Derivatives are concluded with counterparties based in OECD countries (or with credible domestic counterparties) with long-term ratings of A and better from international rating agencies.

### Other financial assets

In managing the credit risk of other financial assets, the same approaches are applied as in managing the credit risk of provided loans.

### Loans

| (CZK'm) | | | | **2017** | | | | **2016** |
|---|---|---|---|---|---|---|---|---|
| | Loans and other receivables | | | | Loans and other receivables | | | |
| | Banks | Customers | Undifferentiated | **Total** | Banks | Customers | Undifferentiated | **Total** |
| Neither past due nor impaired | 308 | 22 140 | – | **22 448** | 50 | 40 310 | – | **40 360** |
| Past due but not impaired | – | 1 | – | **1** | – | 126 | – | **126** |
| Impaired | 115 | 33 311 | – | **33 426** | 122 | 32 114 | – | **32 236** |
| | 423 | 55 452 | – | **55 875** | 172 | 72 550 | – | **72 722** |
| Less: allowance for impairment | (115) | (6 512) | – | **(6 627)** | (122) | (8 198) | – | **(8 320)** |
| **Total loans** | **308** | **48 940** | **–** | **49 248** | **50** | **64 352** | **–** | **64 402** |
| Other receivables neither past due nor impaired | 3 588 | – | 19 | **3 607** | 2 480 | – | 23 | **2 503** |
| Other impaired receivables | – | – | 5 | **5** | – | – | – | **–** |
| | 3 588 | – | 24 | **3 612** | 2 480 | – | 23 | **2 503** |
| Less: allowance for impairment | | | (2) | **(2)** | – | – | – | **–** |
| **Total loans and others receivables** | **3 896** | **48 940** | **22** | **52 858** | **2 530** | **64 352** | **23** | **66 905** |
| Total undamaged to maturity | 3 896 | 22 140 | 19 | **26 055** | 2 530 | 40 310 | 23 | **42 863** |
| Total overdue undamaged | – | 1 | – | **1** | – | 126 | – | **126** |
| Total net impaired | – | 26 799 | 3 | **26 802** | – | 23 916 | – | **23 916** |
| | **3 896** | **48 940** | **22** | **52 858** | **2 530** | **64 352** | **23** | **66 905** |

### Loans neither past due nor impaired

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

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

| (CZK'm) | | | | | **2017** | | | | **2016** |
|---|---|---|---|---|---|---|---|---|---|
| | | Loans and other receivables | | | | Loans and other receivables | | | |
| | internal rating | Banks | Customers | Undifferentiated | **Total** | Banks | Customers | Undifferentiated | **Total** |
| Very good credit quality | 3 | – | 7 | – | **7** | 19 | 30 | – | **49** |
| Good credit quality | 4 | 3 | 13 429 | – | **13 432** | 8 | 11 858 | – | **11 866** |
| Quality requires attention | 5 | – | 3 242 | – | **3 242** | – | 14 909 | – | **14 909** |
| Vulnerable | 6 | 292 | 1 989 | – | **2 281** | – | 508 | – | **508** |
| Unsatisfactory | 7 | 11 | 2 | – | **13** | 23 | 11 510 | – | **11 533** |
| Default of project | D | – | 3 471 | – | **3 471** | – | 1 495 | – | **1 495** |
| Non-rated | – | 2 | – | – | **2** | – | – | – | **–** |
| **Total credits** | | **308** | **22 140** | **–** | **22 448** | **50** | **40 310** | **–** | **40 360** |
| Highest credit quality | 1 | 31 | – | – | **31** | 385 | – | – | **385** |
| High credit quality | 2 | 2 298 | – | 15 | **2 313** | 331 | – | 23 | **354** |
| Very good credit quality | 3 | 971 | – | – | **971** | 1 636 | – | – | **1 636** |
| Good credit quality | 4 | 288 | – | 2 | **290** | 128 | – | – | **128** |
| Quality requires attention | 5 | – | – | 1 | **1** | – | – | – | **–** |
| Non-rated | – | – | – | 1 | **1** | – | – | – | **–** |
| **Other receivables total** | | **3 588** | **–** | **19** | **3 607** | **2 480** | **–** | **23** | **2 503** |
| **Loans total** | | **3 896** | **22 140** | **19** | **26 055** | **2 530** | **40 310** | **23** | **42 863** |

### Loans past due but not impaired

| (CZK'm) | | | **2017** | | | **2016** |
|---|---|---|---|---|---|---|
| | | Loans | | | Loans | |
| | Banks | Customers | Total | Banks | Customers | Total |
| Past due by 30 days | – | – | **–** | – | – | **–** |
| Past due 30 – 90 days | – | – | **–** | – | 4 | **4** |
| Past due 90 – 180 days | – | – | **–** | – | – | **–** |
| Past due more than 180 days | – | 1 | **1** | – | 122 | **122** |
| **Total** | **–** | **1** | **1** | **–** | **126** | **126** |
| Fair value of collateral | – | – | – | – | – | – |

### Impaired loans

| (CZK'm) | | | **2017** | | | **2016** |
|---|---|---|---|---|---|---|
| | | Loans | | | Loans | |
| | Banks | Customers | Total | Banks | Customers | Total |
| Individually impaired loans | 115 | 33 311 | **33 426** | 122 | 32 114 | **32 236** |
| Less: allowance for impairment | (115) | (6 512) | **(6 627)** | (122) | (8 198) | **(8 320)** |
| **Total net impaired** | **–** | **26 799** | **26 799** | **–** | **23 916** | **23 916** |
| Fair value of collateral | – | 26 525 | 26 525 | – | 23 599 | 23 599 |

### Restructured loans

| (CZK'm) | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Loans | | | Loans | | |
| | Banks | Customers | Total | Banks | Customers | Total |
| Restructured loans | – | 6 347 | **6 347** | – | 8 079 | **8 079** |
| Unexpended credit commitments to customers | – | – | – | – | – | – |

Restructured loans and receivables includes balances whose terms have been renegotiated and that would otherwise be past due or impaired. The loans reported as of 31 December 2017 as Unimpaired past due and Impaired loans are included in the value of CZK 12,695 million (31 December 2016: CZK 15,851 million), which were restructured over the term of their lives but again demonstrate those characteristics.

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

### Geographic structure of loans and receivables

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | (CZK'm) | (%) | (mil. Kč) | (%) |
| Bulgaria | 1 285 | 2.43 | 1 496 | 2.24 |
| Czech Republic | 3 534 | 6.69 | 2 648 | 3.96 |
| Denmark | 23 | 0.04 | 25 | 0.04 |
| France | 453 | 0.86 | 20 | 0.03 |
| Cyprus | – | – | 1 889 | 2.82 |
| Germany | 393 | 0.74 | 283 | 0.42 |
| Netherlands | 2 | 0.01 | 3 | 0,01 |
| Poland | – | – | 8 | 0.01 |
| Austria | – | – | 408 | 0.61 |
| Slovak Republic | 12 933 | 24.47 | 16 486 | 24.64 |
| United Kingdom | 694 | 1.31 | 202 | 0.30 |
| The European Union's total | 19 317 | 36.55 | 23 468 | 35.08 |
| Azerbaijan | 6 096 | 11.53 | 7 314 | 10.93 |
| Belarus | 169 | 0.32 | 309 | 0.46 |
| Montenegro | 110 | 0.21 | 199 | 0.30 |
| Georgia | – | – | 3 207 | 4.79 |
| Indonesia[1] | (17) | (0.03) | – | – |
| India | – | – | 18 | 0.03 |
| Jordan | 3 | 0.01 | 8 | 0.01 |
| Kazakhstan | 6 | 0.01 | – | – |
| Cuba | 282 | 0.53 | – | – |
| Kyrgyzstan | 5 | 0.01 | – | – |
| Mauritius | 169 | 0.32 | 176 | 0.26 |
| Nepal | – | – | 79 | 0.12 |
| Russia | 11 968 | 22,64 | 15 333 | 22.92 |
| United States of America | 27 | 0,05 | 78 | 0.12 |
| United Mexican States | 4 | 0,01 | 8 | 0.01 |
| Serbia | 52 | 0,10 | 101 | 0.15 |
| Switzerland | – | – | 385 | 0.58 |
| Turkey | 14 605 | 27.63 | 15 765 | 23.56 |
| Ukraine | 62 | 0.11 | 457 | 0.68 |
| **Total** | **52 858** | **100.00** | **66 905** | **100.00** |

1) Pre-accepted fees for undrawn credit, which are part of the effective interest rate.

### Industry structure of loans and receivables

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | (CZK'm) | (%) | (CZK'm) | (%) |
| Agriculture, forestry and fishing | 286 | 0.54 | 383 | 0.57 |
| Processing industry | 9 457 | 17.89 | 11 531 | 17.23 |
| Production and distribution electricity, gas, heat and air | 31 037 | 58.72 | 40 031 | 59.83 |
| Building industry | 975 | 1.85 | 3 274 | 4.89 |
| Wholesale and retail trade; repairs vehicle | 180 | 0.34 | 159 | 0.24 |
| Transport and warehousing | 1 926 | 3.64 | 1 472 | 2.20 |
| Banking and insurance industry | 3 916 | 7.41 | 2 526 | 3.78 |
| Real estate activities | – | – | 122 | 0.18 |
| Professional, scientific and technical activities | – | – | 3 | 0.01 |
| Administrative and supporting activity | 649 | 1.23 | 1 096 | 1.64 |
| Public administration, defence | 4 432 | 8.38 | 6 308 | 9.43 |
| **Total** | **52 858** | **100,00** | **66 905** | **100.00** |

### Exposure with Forbearance

Exposures with forbearance are those in which the borrower is unable to meet the terms of the contract and the Bank has provided debt relief in the form of changes in the repayment schedule (deferral or reduction of repayments or extended maturity of the debt), interest rate reduction or remission of default interest or fees.

Exposure with forbearance is included in the 'defaulted' category (minimally in the substandard subcategory). If the newly set terms for such an exposure are met for no less than 6 months, the exposure may be reclassified as non-default (the watch sub-category). The exposure with forbearance can be reclassified as standard only after all the terms have been met for no less than 24 months.

All exposures with forbearance are included in the watch list of the Credit Committee or are placed under special supervision of the officials of the Distressed Debt Management Department.

### Quantitative information for exposures with forbearance

| (CZK'm) | | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| | Forbearance exposure | | | | | | |
| | To maturity without failures | After the due date, without failures | Failure | Forbearance total | Less: allowance for impairment | **Forbearance netto** | Collateral |
| Non-financial corporations | 6 347 | – | 15 898 | 22 245 | (771) | **21 474** | **21 391** |
| **Total** | **6 347** | **–** | **15 898** | **22 245** | **(771)** | **21 474** | **21 391** |

| (CZK'm) | | | | | | | 2016 |
|---|---|---|---|---|---|---|---|
| | Forbearance exposure | | | | | | |
| | To maturity without failures | After the due date, without failures | Failure | Forbearance total | Less: allowance for impairment | **Forbearance netto** | Collateral |
| Non-financial corporations | 8 079 | – | 17 817 | **25 896** | (1 965) | **23 931** | 23 817 |
| **Total** | **8 079** | **–** | **17 817** | **25 896** | **(1 965)** | **23 931** | **23 817** |

### The carrying value of exposures with forbearance compared with loans and other receivables

| (CZK'm) | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Loans and receivables to banks and customers | Forbearance | Share of loans and receivables | Loans and receivables to banks and customers | Forbearance netto | Share of loans and receivables |
| Government Institutions | 4 432 | – | 0.0% | 6 308 | – | 0.0% |
| Credit institutions | 308 | – | 0.0% | 50 | – | 0.0% |
| Non-financial corporations | 44 508 | 21 474 | 48.2 % | 58 044 | 23 931 | 41.2 % |
| **Total exposure** | **49 248** | **21 474** | **43.6 %** | **64 402** | **23 931** | **37.2 %** |

### Loss of exposures with forbearance

| (CZK'm) | | 2017 | | 2016 |
|---|---|---|---|---|
| | Profit/Loss | Write-off | Profit/Loss | Write-off |
| Non-financial corporations | 79 | (381) | (362) | (292) |
| **Total** | **79** | **(381)** | **(362)** | **(292)** |

## (c) Market risk

Market risks arise from open positions in interest rate and currency products, which are exposed to general and specific market movements. The Bank uses GAP analyses to track the spread of interest rate risk in individual currencies over time, estimating the impact of interest rate changes on the Bank's short-term earnings and Economic Value of Equity ("EVE") to estimate the market risk of its positions and the maximum expected loss based on standard market change scenarios (according to the 'Interest Rate Risk in the Banking Book' standard prepared by the Basel Committee on Banking Supervision in April 2016). The Board sets the acceptable level of risk from which all market risk management limits are derived. The present utilisation of limits is monitored on a daily basis by the banking risk management unit. The Bank applies the EVE method, which calculates the maximum possible change in the economic value of the Bank's capital in applying standardised interest rate and exchange rate scenarios. The Bank has not been exposed to risks arising from non-linear instruments. All EVE changes are summarised in the table below.

### EVE values

| (CZK'm) | 12 months to 31 December 2017 | | | 12 months to 31 December 2016 | | |
|---|---|---|---|---|---|---|
| **ΔEVE** | Average | High | Low | Average | High | Low |
| Interest rate risk | 115.89 | 165.96 | 81.04 | 142.28 | 193.57 | 113.90 |
| Foreign exchange risk | 4.01 | 43.39 | 0.28 | 12.81 | 31.19 | 3.60 |
| Total ΔEVE | 119.90 | 169.51 | 84.04 | 155.09 | 209.93 | 123.74 |

| (CZK'm) | | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| **ΔEVE** | | | |
| Interest rate risk | Parallel up | 81.64 | 119.43 |
| | Parallel down | 47.90 | 43.78 |
| | Short rate up | 41.53 | 57.71 |
| | Short rate down | 34.52 | 29.31 |
| | Steepener | 2.64 | – |
| | Flattener | 59.32 | 48.26 |
| | **Maximum** | **81.64** | **119.43** |
| Foreign exchange risk | Parallel up | 2.41 | – |
| | Parallel down | – | 4.80 |
| | **Maximum** | **2.41** | **4.80** |
| **Total ΔEVE** | | **84.04** | **124.23** |

The Bank conducts quarterly stress testing of the impact of material changes in financial markets on the level of market risk exposure. Under the EVE method, scenarios based on the standard scenarios for the day-to-day management of interest rate and currency risk are used to modify them to capture an even greater movement in market factors.

## (d) Currency risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is managed using currency sensitivity and EVE analyses, for which a set of limits is defined to mitigate potential exposure. If the total currency position is greater than 2% of the 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 summarises the Bank's exposure to currency risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The net foreign currency position also includes exposure to currency risk arising from currency derivatives that are used primarily to reduce the balance sheet currency risk of the Bank.

**Concentrations of assets, liabilities and off-balance sheet items**

| (CZK'm) | CZK | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | |
| **ASSETS** | | | | | |
| Cash and balances with central bank | 2 760 | – | 959 | – | **3 719** |
| Financial instruments held for trading | – | – | – | – | **–** |
| Financial instruments available-for-sale | 1 522 | 733 | – | – | **2 255** |
| Loans and receivables | 1 434 | 48 973 | 2 449 | 2 | **52 858** |
| *of which:* from banks | 1 | 3 070 | 823 | 2 | **3 896** |
| *of which:* from other clients | 1 424 | 45 890 | 1 626 | – | **48 940** |
| *of which:* undifferentiated | 9 | 13 | – | – | **22** |
| Financial instruments held-to-maturity | 725 | 420 | – | – | **1 145** |
| Hedging derivatives | – | – | 2 | – | **2** |
| Equipment | 23 | – | – | – | **23** |
| Intangible assets | 54 | – | – | – | **54** |
| Other assets, including tax | 1 004 | 1 664 | 31 | – | **2 699** |
| **Total assets** | **7 522** | **51 790** | **3 441** | **2** | **62 755** |
| **LIABILITIES** | | | | | |
| Financial liabilities held for trading | 62 | 2 | – | – | **64** |
| Financial liabilities in amortized costs | 11 861 | 40 021 | 3 430 | – | **55 312** |
| *of which:* to banks | – | 427 | 1 492 | – | **1 919** |
| *of which:* to other clients | 605 | 197 | 660 | – | **1 462** |
| *of which:* undifferentiated | 16 | – | 1 | – | **17** |
| *of which:* issued bonds | 11 240 | 39 397 | 1 277 | – | **51 914** |
| Hedging derivatives | 77 | 236 | – | – | **313** |
| Other liabilities, including tax | 168 | 170 | 14 | – | **352** |
| **Total liabilities** | **12 168** | **40 429** | **3 444** | **–** | **56 041** |
| Net on-balance sheet items | (4 646) | 11 361 | (3) | 2 | **6 714** |
| Currency forward | 11 220 | (11 493) | – | – | **(273)** |
| **Net currency position** | **6 574** | **(132)** | **(3)** | **2** | **6 441** |
| **At 31 December 2016** | | | | | |
| Total assets | 13 945 | 61 454 | 5 426 | 8 | **80 833** |
| Total liabilities | 15 841 | 53 086 | 5 404 | 7 | **74 338** |
| Net on-balance sheet position | (1 896) | 8 368 | 22 | 1 | **6 495** |
| Currency forward | 7 829 | (8 760) | – | – | **(931)** |
| **Net currency position** | **5 933** | **(392)** | **22** | **1** | **5 564** |

### (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, if relevant, PRIBOR. Interest rate is managed using the interest rate sensitivity analysis and EVE, 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 optimises the structure of its sources of finance comprising bond issues and syndicated loans so that no significant differences between the duration of its interest sensitive assets and liabilities arise.

Interest rate derivatives are used for mitigating the difference between the interest rate sensitivity of assets and liabilities. These transactions are conducted in accordance with the risk management policies approved by the Board of Directors and the use of hedge accounting rules approved by the ALCO to reduce the interest rate risk of the Bank.

### (f) 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 and at a favourable time.

The Bank's liquidity risk management uses its own methods for measuring and monitoring net cash flows and liquidity positions. The differences between the inflow and outflow of funds are measured using the liquidity gap analysis, which determines the liquidity positions for different time baskets (gaps). Developments in the liquidity of the currency structures of CZK, EUR, USD and the total of the Bank is monitored at several levels of market behaviour at the levels of the standard and alternative scenarios and three stress scenarios that quantify the impact on liquidity in the event of a name crisis, market crisis and combined crisis. The scenarios are the basis for regular analysis of survival time. The Bank has set a minimum requirement for the survival for at least two months according to the standard scenario. The Bank has also determined a system of early warning indicators designed to capture negative trends and to trigger a response to the identified situation. Sufficient liquidity is controlled by a system of limits and is managed using balance sheet (e.g. bond issues, loans taken) and off-balance sheet transactions (FX swaps, currency interest rate swaps). The Bank regularly reviews the fundraising plan in line with the latest developments in liquidity risk, financial markets etc.

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 provides the Bank with flexibility in selecting the requested sources and limits its dependence on one source of finance. The Bank regularly assesses liquidity risk, predominantly by monitoring changes in the financing structure. In compliance with its liquidity risk management strategy, the Bank also maintains a sufficient liquidity reserve primarily comprised of highly liquid government securities and bonds of financial institutions of the European Union.

On 1 October 2015 the regulatory requirement for the liquidity coverage ratio (LCR) came into force, setting the minimum required level to 80% for 2017. As of 31 December 2017, the Bank reported LCR of 3.034% (as of 31 December 2016: standard – 70%; LCR – 1,873%).

The stated values are based on non-discounted cash flows.

**Maturity of non-derivative financial liabilities**

| (CZK'm) | Up to 1 months | 1–3 months | 3–12 months | 1–5 years | Over 5 years | **Total** |
|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | |
| Financial liabilities at amortized cost due to banks | 67 | 9 | 66 | 1 806 | – | **1 948** |
| Financial liabilities at amortized cost due to clients | 446 | 41 | 900 | 32 | 49 | **1 468** |
| Debt securities in issue | 45 | 419 | 13 427 | 31 405 | 8 866 | **54 162** |
| **Total financial liabilities at amortized cost** | **558** | **469** | **14 393** | **33 243** | **8 915** | **57 578** |
| Loan commitments | 169 | 751 | 718 | 64 | – | **1 702** |
| **31 December 2016** | | | | | | |
| Financial liabilities at amortized cost due to banks | 2 126 | 8 | 72 | 2 270 | – | **4 476** |
| Financial liabilities at amortized cost due to clients | 695 | 2 | 1 334 | 13 | 76 | **2 120** |
| Debt securities in issue | 52 | 2 146 | 10 701 | 44 353 | 12 443 | **69 695** |
| **Total financial liabilities at amortized cost** | **2 873** | **2 156** | **12 107** | **46 636** | **12 519** | **76 291** |
| Loan commitments | 78 | 897 | 1 073 | 546 | – | **2 594** |

**Maturity of derivative financial liabilities**

Derivatives to be settled in net value include liabilities from interest rate swaps.

| (CZK'm) | Up to 1 months | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | |
| Derivatives held for trading | – | – | – | – | – | **–** |
| Hedging derivatives | (2) | (52) | (66) | (118) | – | **(238)** |
| **31 December 2016** | | | | | | |
| Derivatives held for trading | – | – | (1) | – | – | **(1)** |
| Hedging derivatives | (6) | (79) | (161) | (246) | (6) | **(498)** |

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

| (CZK'm) | Up to 1 months | 1–3 months | 3–12 months | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | |
| **Foreign exchange derivatives for trading** | | | | | | |
| outflow | – | – | – | – | – | **–** |
| inflow | – | – | – | – | – | **–** |
| **Cross currency swaps for trading** | | | | | | |
| outflow | – | – | (18) | (3 876) | – | **(3 894)** |
| inflow | – | – | 56 | 3 817 | – | **3 873** |
| **Cross currency swaps to hedge** | | | | | | |
| outflow | – | (13) | (7 690) | – | – | **(7 703)** |
| inflow | – | 23 | 7 601 | – | – | **7 624** |
| **Total outflow** | **–** | **(13)** | **(7 708)** | **(3 876)** | **–** | **(11 597)** |
| **Total inflow** | **–** | **23** | **7 657** | **3 817** | **–** | **11 497** |
| **31 December 2016** | | | | | | |
| **Foreign exchange derivatives for trading** | | | | | | |
| outflow | (1 617) | (1 396) | (405) | – | – | **(3 391)** |
| inflow | 1 621 | 1 373 | 405 | – | – | **3 399** |
| **Cross currency swaps for trading** | | | | | | |
| outflow | – | – | (21) | (4 126) | – | **(4 147)** |
| inflow | – | – | 39 | 3 813 | – | **3 852** |
| **Cross currency swaps to hedge** | | | | | | |
| outflow | – | (15) | (49) | (8 154) | – | **(8 218)** |
| inflow | – | 20 | 65 | 7 609 | – | **7 694** |
| **Total outflow** | **(1 617)** | **(1 384)** | **(475)** | **(12 280)** | **–** | **(15 756)** |
| **Total inflow** | **1 621** | **1 393** | **509** | **11 422** | **–** | **14 945** |

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

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

The yield curves used in calculating fair values are sourced from the Reuters system. The fair value of loans classified as substandard and lower is equal to the carrying amount.

| (CZK'm) | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|
| | Carrying value | | Fair value | |
| **FINANCIAL ASSETS** | | | | |
| Balances with central bank | 3 719 | 8 610 | 3 719 | 8 610 |
| Loans to banks | 3 896 | 2 530 | 3 717 | 2 316 |
| Loans to other entities | 48 940 | 64 352 | 52 722 | 65 876 |
| Financial instruments held-to-maturity | 1 145 | 1 183 | 1 210 | 1 292 |
| **FINANCIAL LIABILITIES** | | | | |
| Financial liabilities at amortized cost due to banks | 1 919 | 4 431 | 1 944 | 4 474 |
| Financial liabilities at amortized cost due to clients | 1 462 | 2 115 | 1 453 | 2 118 |
| Debt securities in issue | 51 914 | 66 268 | 46 733 | 62 592 |
| Loan commitments given | 1 702 | 2 594 | – | – |

Financial instruments held-to-maturity include quoted securities measured at level 1 in the carrying amount of CZK 1,095 million and fair value of CZK 1,210 million in 2017 (2016: the carrying amount of CZK 1,133 million and fair value of CZK 1,242 million).

All debt securities in issue are quoted and measured at level 1.

All other financial assets and liabilities are measured at the level 2 fair value.

**Loans to banks**

Loans to banks includes inter-bank deposits and other receivables. The fair value of floating interest 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 other entities 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.

**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 recognised 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 (the average of bid/ask prices supplied by Reuters is used for valuation purposes); 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) | 2017 | | 2016 | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Financial instruments held for trading | – | – | – | 12 |
| Financial instruments available-for-sale | 2 255 | – | 3 542 | – |
| Hedging derivatives with positive fair value | – | 2 | – | 1 |
| **Total** | **2 255** | **2** | **3 542** | **13** |
| Financial liabilities held for trading | – | 64 | – | 239 |
| Hedging derivatives with negative fair value | – | 313 | – | 903 |
| **Total** | **–** | **377** | **–** | **1 142** |

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

Fair value measurements at level 2 are performed by way of discounting future cash flows using zero-risk yield curves (provided by Reuters).

**Offsetting of financial instruments**

The Bank is entitled to present certain financial instruments in the statement of financial position in net terms according to the criteria set out in Note 2d).

The following table provides information on the impact of compensation on the balance sheet and the financial impact of the netting for vehicles subject to netting agreements or similar agreements.

| (CZK'm) | | | | | | 2017 |
|---|---|---|---|---|---|---|
| | Gross amounts of financial assets | Gross amounts accounted for | Gross financial assets reported in the balance sheet | Impact of Master Netting Agreements | Cash collateral | Net amount |
| Positive market values from derivatives (enforceable) | 2 | – | **2** | (50) | – | (48) |
| Positive market values from derivatives (non-enforceable) | – | – | **–** | – | – | – |
| **Total assets** | **2** | **–** | **2** | (50) | – | (48) |
| Negative market values from derivatives (enforceable) | 377 | – | **377** | (50) | (168) | 159 |
| Negative market values from derivatives (non-enforceable) | – | – | **–** | – | – | – |
| **Total liabilities** | **377** | **–** | **377** | (50) | (168) | 159 |

| (CZK'm) | | | | | | 2016 |
|---|---|---|---|---|---|---|
| | Gross amounts of financial assets | Gross amounts accounted for | Gross financial assets reported in the balance sheet | Impact of Master Netting Agreements | Cash collateral | Net amount |
| Positive market values from derivatives (enforceable) | 13 | – | **13** | – | – | 13 |
| Positive market values from derivatives (non-enforceable) | – | – | **–** | – | – | – |
| **Total assets** | **13** | **–** | **13** | – | – | 13 |
| Negative market values from derivatives (enforceable) | 1 142 | – | **1 142** | – | (207) | 935 |
| Negative market values from derivatives (non-enforceable) | – | – | **–** | – | – | |
| **Total liabilities** | **1 142** | **–** | **1 142** | – | (207) | 935 |

**(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 standardised approach based on an external rating to calculate the capital requirement for the credit risk of the investment portfolio, i.e. to 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 accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies registered in the list of agencies for credit assessment maintained for this purposes by the European Securities and Markets Authority (ESMA) or by the export credit agency, which publishes reviews and complies with OECD methodology for classifying countries. Exposure classes and risk weights when using the standardised approach defined by Regulation of the European Parliament and the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

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).

The Bank has created and uses an Internal Capital Adequacy Assessment Process (the "ICAAP") in order to fulfil its legal obligations in the area of planning and continuously maintaining internally set capital so that the risks to which the Bank could be exposed are sufficiently covered.

The ICAAP is established to reflect the Bank's nature of a specialised bank institution directly and indirectly owned by the state intended to provide officially supported financing and related services pursuant to Act No. 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 ICAAP concept in the form of a capital management strategy which defines the key goals, principles, parameters and limits of the ICAAP, including the methods used to evaluate and measure each risk undertaken by the Bank.

Quantifiable risks within the ICAAP are assessed in the form of internally set capital requirements. Other risks within the ICAAP are covered by qualitative measures in risk management and organisation of processes and controls (code of ethics, code of corporate governance, etc.).

In 2017 and 2016, the Bank met all regulatory requirements for capital adequacy.

The Bank has proceeded in line with the BASEL 3 rules codified in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

**Regulatory capital**

| (CZK'm) | **2017** | **2016** |
|---|---|---|
| Paid-up share capital registered in the commercial register | 5 000 | 5 000 |
| Reserve funds | 1 594 | 1 175 |
| The accumulated other comprehensive income | (137) | (98) |
| Deductible items from the original equity – intangible assets | (302) | (272) |
| Capital adjustment due to the use of prudential filters | 190 | 188 |
| Other transitional adjustment of capital | 247 | 215 |
| **Initial capital (Tier 1)** | **6 592** | **6 208** |
| **Regulatory capital** | **6 592** | **6 208** |

**Effect of the adoption of IFRS 9 on regulatory requirements**

The Bank has decided not to apply the transitional arrangements specified in Article 473a of Regulation (EU) No. 575/2013 for mitigating the impact of the introduction of IFRS 9 and analogous ECLs; therefore, its profit funds, capital and leverage ratios will reflect the full impact of IFRS 9 or analogous ECLs.

Due to the recognition of provisions and the derecognition of the fair value of securities measured at fair value through equity during reclassification to the portfolio of bonds measured at amortised cost, the regulatory capital will decline approximately by CZK 90–150 million.

## 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 of the Bank, or national or local economic conditions that correlate with defaults on loans and, at present, the Bank also takes account of the opinion of EGAP to make payments or deny insurance claims. 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 recognised in equity is reported through profit or loss.

### (c) State subsidy

When recognising 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 a portion of expenses rather than as 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 recognises 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

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

Separate set (circle) 001 includes operating activities, financing without the right to a grant and other related activities in accordance with banking licences 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 | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | circle 001 | circle 002 | **Total** | circle 001 | circle 002 | **Total** |
| Interest and similar income | 654 | 1 399 | **2 053** | 809 | 1 838 | **2 647** |
| Interest expense and similar charges | (15) | (1 397) | **(1 412)** | (20) | (1 715) | **(1 735)** |
| Impairment losses on loans | (25) | 77 | **52** | (7) | (33) | **(40)** |
| Creation/release of provisions for guarantees provided | – | (102) | **(102)** | – | (9) | **(9)** |
| Subsidy income | – | – | **–** | – | – | **–** |
| Loss/profit before income tax | 239 | 20 | **259** | 416 | 195 | **611** |
| Income tax expense | (2) | – | **(2)** | (193) | – | **(193)** |
| Profit for the year | 237 | 20 | **257** | 223 | 195 | **418** |
| Loans and receivables | 2 341 | 50 517 | **52 858** | 2 334 | 64 571 | **66 905** |
| Total assets | 8 109 | 54 646 | **62 755** | 9 329 | 71 504 | **80 833** |
| Financial liabilities at amortized cost and guaranteed liabilities | 456 | 54 856 | **55 312** | 1 835 | 70 998 | **72 833** |
| Total liabilities and equity | 7 604 | 55 151 | **62 755** | 8 647 | 72 186 | **80 833** |

**Revenue from ordinary activities of the Bank in the geographic breakdown**

| (CZK'm) | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Interest and similar income | Fee and commisions income | **Total** | Interest and similar income | Fee and commisions income | **Total** |
| Bulgaria | 61 | – | **61** | 68 | – | **68** |
| Czech Republic | 147 | 27 | **174** | 195 | 26 | **221** |
| France | 3 | – | **3** | 2 | – | **2** |
| Cyprus | 43 | – | **43** | 55 | – | **55** |
| Luxembourg | 24 | – | **24** | 19 | – | **19** |
| Netherlands | 1 | – | **1** | 1 | – | **1** |
| Austria | 1 | – | **1** | – | – | **–** |
| Slovak Republic | 329 | – | **329** | 518 | – | **518** |
| United Kingdom | 2 | – | **2** | 1 | 1 | **2** |
| The European Union's total | 611 | 27 | **638** | 859 | 27 | **886** |
| Azerbaijan | 181 | – | **181** | 241 | 0 | **241** |
| Belarus | 10 | – | **10** | 15 | 1 | **16** |
| Montenegro | 2 | – | **2** | 4 | – | **4** |
| Georgia | 137 | – | **137** | 118 | – | **118** |
| India | – | 1 | **1** | – | 1 | **1** |
| Indonesia | 4 | – | **4** | – | – | **–** |
| Iraq | – | 1 | **1** | – | 2 | **2** |
| Kuba | 2 | – | **2** | – | – | **–** |
| Mauritius | 7 | – | **7** | 7 | – | **7** |
| Nepal | 3 | – | **3** | 3 | – | **3** |
| Russia | 618 | – | **618** | 806 | – | **806** |
| United States of America | 2 | – | **2** | 2 | – | **2** |
| Serbia | 3 | – | **3** | 5 | – | **5** |
| Switzerland | 1 | – | **1** | 2 | – | **2** |
| Turkey | 464 | – | **464** | 557 | – | **557** |
| Ukraine | 8 | – | **8** | 28 | – | **28** |
| **Total interest income and fees** | **2 053** | **29** | **2 082** | **2 647** | **31** | **2 678** |

## 6 / NET INTEREST INCOME

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Interest income from loans to banks | 3 | 3 |
| Interest income from loans to clients | 1 925 | 2 476 |
| Interest income from interbank deposits | 16 | 7 |
| Interest income from loans and receivables | 1 944 | 2 486 |
| Interest income from CNB loans – repos | 8 | 1 |
| Interest income from available-for-sale securities | 45 | 70 |
| Interest income from financial investments held-to-maturity – securities | 39 | 44 |
| Interest on other assets – collateral | 1 | 1 |
| Interest on liabilities | 16 | 9 |
| Gains on hedging interest derivative instruments | – | 36 |
| Other interest earnings | 109 | 161 |
| **Interest and similar income** | **2 053** | **2 647** |
| Interest expense from received bank credits | (51) | (30) |
| Interest expense from term deposits | (4) | (1) |
| Interest expense from issued bonds | (1 064) | (1 272) |
| Interest expense from financial liabilities in amortized costs | (1 119) | (1 303) |
| Interest on assets | (73) | (44) |
| Gains (loss) on hedging interest derivative instruments | (220 | (388 |
| **Interest expense and similar charges** | **(1 412)** | **(1 735)** |
| **Net interest income** | **641** | **912** |

Interest income for 2017 includes interest on loans in the amount of CZK 733 million (2016: CZK 1,124 million) that were impaired as of 31 December 2017. Interest on assets represents interest expenses from financial assets and interest on liabilities represents interest income from financial liabilities resulting from negative interest rates.

## 7 / FEE AND COMMISSION INCOME

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Fees and commisions from credit activities | – | 1 |
| Fees and commisions from payments | 2 | 4 |
| Fees and commisions from guarantees | 27 | 26 |
| **Fee and commisions income** | **29** | **31** |
| Fees and commisions from clearing and settlement | (1) | (1) |
| Fees for guarantees | (8) | (10) |
| Fee for security operations | (1) | (1) |
| Fees and commisions for rating | (8) | (6) |
| **Fee and commisions expense** | **(18)** | **(18)** |
| **Net fee and commission income** | **11** | **13** |

## 8 / NET PROFIT FROM FINANCIAL OPERATIONS

### Amounts due from the state budget

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| **STATE SUBSIDY TO STATE EXPORT PROMOTION** under international rules (OECD Consensus) | | |
| **At 1 January** | **–** | **3 824** |
| Return (receipt) of state subsidy | – | (3 824) |
| Change in receivables from state budget | – | – |
| **At 31 December** | **–** | **–** |

### Profit from financial operations

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Subsidy income | – | – |
| Gains from operations with securities | 15 | 1 |
| Realized gains from financial assets and liabilities not carried at fair value through profit | 15 | 1 |
| Costs of derivative transactions with interest rate instruments | – | (3) |
| Income from derivative transactions with interest rate instruments | 2 | – |
| Costs of derivative transactions with currency instruments | (8) | (93) |
| Income from derivative transactions with currency instruments | 186 | 146 |
| Net trading income/(expense) | 180 | 50 |
| The gains/(losses) of hedge accounting | 480 | 68 |
| Foreign exchange gains/(losses) | (607) | 6 |
| **Net profit from financial operations, including state subsidy** | **68** | **125** |

## 9 / OPERATING COSTS

| | | 2017 | 2016 |
|---|---|---|---|
| Number of employees | | 157 | 149 |
| Average recorded number of employees | | 156 | 148 |
| Board and Supervisory Board | | 11 | 7 |
| | | | |
| (CZK'm) | Note | **2017** | **2016** |
| Salaries and emoluments | | (157) | (156) |
| Social and health security costs | | (50) | (48) |
| Other staff costs | | (6) | (6) |
| Staff costs | | (213) | (210) |
| Advertising | | (5) | (6) |
| Advice | | (3) | (8) |
| Information technology | | (21) | (18) |
| Outsourcing | | – | (2) |
| Rental | | (16) | (18) |
| Fare | | (7) | (6) |
| Contribution to the Guarantee of financial market | | (15) | (14) |
| Other services immaterial | | (9) | (13) |
| Other administrative expenses | | (13) | (15) |
| Total administrative expenses | | (302) | (310) |
| Software amortisation | 18 | (33) | (27) |
| Depreciation of long term tangible assetss | | (10) | (17) |
| Depreciation and amortization | | (43) | (44) |
| Legal costs and control activities | | (14) | (7) |
| Cost of recovery | | (32) | (63) |
| Contractual fines and penalties | | (1) | – |
| Value added tax | | (18) | 6 |
| Other | | (1) | (1) |
| Other operating expenses | | (66) | (65) |
| **Total operating costs** | | **(411)** | **(419)** |

Staff costs include provisions for bonuses and long-term employee benefits. During 2017, income of members of the Board of Directors and the Supervisory Board amounted to CZK 22 million (2016: CZK 25 million). The provision for bonuses for the employees having an influence on the Bank's overall risk profile, the payment of which is deferred and depends on the financial performance and other criteria in future years, was (due to the release of the balance of the 2011 provision for redundancy) decreased by CZK 2 million to CZK 42 million and the provision for social security and health insurance relating to these deferred bonuses was increased by CZK 2 million to CZK 8 million. The provision for long-term employee benefits remains at the same level, i.e. CZK 1 million.

### 10 / IMPAIRMENT LOSSES ON LOANS

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Creation of allowances for receivables to clients | 20 | (177) |
| llowances for losses on loans to banks | – | 1 |
| Utilisation and release of allowances on loans to customers | 1 279 | 426 |
| Receivables from banks written off | – | (1) |
| Receivables from clients written off | (5 431) | (3 865) |
| Claims from credit insurance on bad debts to customers – received indemnity | 4 134 | 3 495 |
| Claims from credit insurance on bad debts to banks | – | 5 |
| Claims from credit insurance on bad debts to customers – the other to ensure | 50 | 76 |
| **Impairment losses on loans** | **52** | **(40)** |

In 2017, the Bank cleansed its balance sheet for both insured and uninsured impaired loans. Revenues from written-off receivables from clients – from other collateral includes extraordinary income of CZK 50 million (2016: CZK 56 million).

In 2017, the Bank recognised provisions for guarantees given in amount of CZK 121 million (2016: CZK 9 million).

### 11 / INCOME TAX

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

| (CZK'm) | Note | 2017 | 2016 |
|---|---|---|---|
| Income tax payable | | 11 | 185 |
| Deferred tax | 23 | (9) | 8 |
| **Income tax expense** | | **2** | **193** |
| | | | |
| Profit before taxation | | 259 | 611 |
| Expected tax 19% (2016: 19%) | | (49) | (116) |
| Effects of non-taxable expenses | | (541) | (416) |
| Effects of non-taxable income | | 736 | 358 |
| Tax liability/tax loss for the accounting period | | 146 | (174) |
| Income tax of the periods | | (11) | (11) |
| Deferred tax | | 9 | **(8)** |

Tax non-deductible expenses primarily include the write-off of receivables in the amount of CZK 2,766 million and tax non-deductible income primarily represents income from written-off receivables (insurance proceeds received) in the amount of CZK 2,626 million and the use of tax non-deductible provisions of CZK 1,279 million. The current income tax asset primarily represents advance payments made arising from the Bank's tax liabilities in previous periods (in 2015, the tax liability was CZK 938 million) and will be settled within the statutory deadline for filing the tax return for 2017.

### 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 | 2017 | 2016 |
|---|---|---|---|
| Cash and balances with central banks | 13 | 3 719 | 8 610 |
| Placements with other banks | 14 | 2 574 | 1 983 |
| **Total cash and cash equivalents** | | **6 293** | **10 593** |

### 13 / CASH AND BALANCES WITH THE CENTRAL BANK

| (CZK'm) | Note | 2017 | 2016 |
|---|---|---|---|
| Term deposits included in cash equivalents | | 3 699 | 8 570 |
| Mandatory reserve deposits with central bank | | 20 | 40 |
| **Cash and balances with central bank** | 12 | **3 719** | **8 610** |

Minimum obligatory reserves are defined as 2% of the Bank's liabilities from deposits and loans received from entities other than banks and credit unions and of debt securities held by these entities which have a maturity shorter than 2 years, recorded at the end of the month preceding the month in which the maintenance period begins by one month. As these balances are available on a daily basis, they are included in cash and cash equivalents.

### 14 / LOANS AND RECEIVABLES

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Loans to banks | 3 896 | 2 530 |
| Loans to other entities | 48 940 | 64 352 |
| Other undifferentiated receivables | 22 | 23 |
| Loans and receivables | 52 858 | 66 905 |
| **Total loans and receivables** | **52 858** | **66 905** |
| | | |
| **Remaining maturity:** | | |
| Current loans to customers | 4 433 | 3 576 |
| Non-current loans to customers | 48 425 | 63 329 |

The item 'Other undifferentiated receivables' represents short-term receivables arising from original cost reimbursement.

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

The Bank recognised no allowances for undifferentiated receivables.

**Loans to banks**

| (CZK'm) | Note | 2017 | 2016 |
|---|---|---|---|
| Current accounts with other banks | | 398 | 292 |
| Other deposits at other credit institutions included in cash equivalents | | 2 176 | 1 691 |
| Included in cash equivalents | 12 | 2 574 | 1 983 |
| Other deposits at other credit institutions not included in cash equivalents | | 1 014 | 497 |
| Loans to other banks | | 423 | 172 |
| Loans and advances to credit institutions without compromising total | | 4 011 | 2 652 |
| Allowance for loan impairment | | (115) | (122) |
| **Total loans to banks** | | **3 896** | **2 530** |
| | | | |
| **Remaining maturity:** | | | |
| Current loans to banks | | 3 671 | 2 276 |
| Non-current loans to banks | | 225 | 254 |

### Allowances for impairment on loans to banks

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| **Balance at 1 January** | **(122)** | **(122)** |
| Increase to allowance | – | – |
| Utilisation for write offs | – | 1 |
| Reducing of allowance | – | – |
| Net movement in allowances | – | 1 |
| Foreign exchange differences | 7 | (1) |
| **Balance at 31 December** | **(115)** | **(122)** |

### Loans to other entities

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| **LOANS TO CORPORATE ENTITIES** | | |
| Pre-export funding | 1 438 | 1 289 |
| Export funding | 49 315 | 63 666 |
| Investment | 4 609 | 7 397 |
| Operating | – | 89 |
| For bank guarantee | 6 | 2 |
| Trade receivables | 7 | 5 |
| For factoring | 77 | 102 |
| Loans and advances to customers without compromising total | 55 452 | 72 550 |
| Allowance for loan impairment | (6 512) | (8 198) |
| **Total loans to corporate entities** | **48 940** | **64 352** |
| | | |
| **Remaining maturity:** | | |
| Current loans to customers | 740 | 1 277 |
| Non-current loans to customers | 48 200 | 63 075 |

### Allowances for impairment on loans to other entities

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| **At 1 January** | **(8 198)** | **(8 438)** |
| Increase to allowance | (147) | (1 093) |
| Utilisation for write offs | 1 278 | 426 |
| Reducing of allowance | 167 | 916 |
| Net movement in allowances | 1 298 | 249 |
| Foreign exchange differences | 388 | (9) |
| **At 31 December** | **(6 512)** | **(8 198)** |

## 15 / DERIVATIVE FINANCIAL INSTRUMENTS

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

The Bank uses the following derivative financial instruments:

### Total derivatives

| (CZK'm) | | | | |
|---|---|---|---|---|
| | Notional amount | | Fair values | |
| | Assets | Liabilities | Assets | Liabilities |
| **31 December 2017** | | | | |
| Derivatives held for trading | 3 675 | 3 831 | – | 64 |
| Hedging derivatives | 11 184 | 11 301 | 2 | 313 |
| **Total derivatives** | **14 859** | **15 132** | **2** | **377** |
| | | | | |
| **Remaining maturity:** | | | | |
| Short-term derivatives held for trading | – | – | – | – |
| Long-term derivatives held for trading | 3 675 | 3 831 | – | 64 |
| Short-term hedging derivatives | 8 494 | 8 611 | – | 104 |
| Long-term hedging derivatives | 2 690 | 2 690 | 2 | 209 |
| | | | | |
| **31 December 2016** | | | | |
| Derivatives held for trading | 7 104 | 7 474 | 12 | 239 |
| Hedging derivatives | 16 075 | 16 636 | 1 | 903 |
| **Total derivatives** | **23 179** | **24 110** | **13** | **1 142** |
| | | | | |
| **Remaining maturity:** | | | | |
| Short-term derivatives held for trading | 3 429 | 3 421 | 10 | 1 |
| Long-term derivatives held for trading | 3 675 | 4 053 | 2 | 238 |
| Short-term hedging derivatives | 3 783 | 3 783 | – | 84 |
| Long-term hedging derivatives | 12 292 | 12 853 | 1 | 819 |

### Derivatives held for trading

| (CZK'm) | | | | |
|---|---|---|---|---|
| | Notional amount | | Fair values | |
| | Assets | Liabilities | Assets | Liabilities |
| **31 December 2017** | | | | |
| **INTEREST RATE DERIVATIVES** | | | | |
| Cross-currency interest rate swap | 3 675 | 3 831 | – | 64 |
| **Total derivatives held for trading** | **3 675** | **3 831** | **–** | **64** |
| | | | | |
| **31 December 2016** | | | | |
| **FOREIGN EXCHANGE DERIVATIVES** | | | | |
| Currency swaps | 3 242 | 3 235 | 10 | – |
| Forward | 157 | 156 | 1 | – |
| **INTEREST RATE DERIVATIVES** | | | | |
| Interest rate swaps | 30 | 30 | – | 1 |
| Cross-currency interest rate swap | 3 675 | 4 053 | 1 | 238 |
| **Total derivatives held for trading** | **7 104** | **7 474** | **12** | **239** |

The Bank undertakes currency and interest rate derivatives transactions mainly with other financial institutions.

### Hedging fair value derivatives

In accordance with the rules for using hedge accounting as approved by the ALCO, the Bank has entered into interest rate swaps, which hedge the fair value of the interest payments on bonds in CZK and interest payments of loans granted in EUR or USD (converting fixed interest payments into variable ones).

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

| (CZK'm) | | | | |
|---|---|---|---|---|
| | Notional amount | | Fair values | |
| | Assets | Assets | Aktiva | Liabilities |
| **31 December 2017** | | | | |
| **INTEREST RATE DERIVATIVES** | | | | |
| Interest rate swaps | 1 383 | 1 383 | – | 60 |
| **Total hedging derivatives** | **1 383** | **1 383** | **–** | **60** |
| | | | | |
| **31 December 2016** | | | | |
| **INTEREST RATE DERIVATIVES** | | | | |
| Interest rate swaps | 2 329 | 2 329 | 1 | 125 |
| **Total hedging derivatives** | **2 329** | **2 329** | **1** | **125** |

### Hedging cash flow derivatives

The Bank arranged interest rate and currency swaps in order to hedge cash flows from future liabilities of the Bank (loans bearing variable interest and bond issues with variable coupons). Using interest rate swaps, the Bank converts variable interest payments of funds into fixed ones, thereby hedging the cash flows of the financial liabilities of the Bank. Using currency swaps, the Bank converts interest payments of funds from one currency into another, thereby hedging the Bank's currency risk. In 2016 and 2017, the Bank did not enter into any interest rate swap to hedge cash flows.

Testing for hedging effectiveness showed that hedging is highly effective and complies with the requirements of IAS 39. The effective portion of the change in the fair value of hedging interest rate and currency swaps is reported through equity. The Bank reported a loss relating the ineffective portion in the amount of CZK 30 million and CZK 11 million in 2017 and 2016, respectively. The ineffectiveness of the hedge is given by the fact that the Bank took a market opportunity and negotiated a fixed issue, which was more cost-effective in terms of the interest rate profile. Hedging relationships used existing variable-coupon issueswith a slightly different profile to interest rate swaps, which resulted in a loss associated with the ineffective portion of the hedge.

| (CZK'm) | | | | |
|---|---|---|---|---|
| | Notional amount | | Fair values | |
| | Assets | Assets | Aktiva | Liabilities |
| **31 December 2017** | | | | |
| **INTEREST RATE DERIVATIVES** | | | | |
| Interest rate swaps | 2 256 | 2 256 | 2 | 167 |
| Cross-currency interest rate swap | 7 545 | 7 662 | – | 86 |
| **Total hedging derivatives** | **9 801** | **9 918** | **2** | **253** |
| | | | | |
| **31 December 2016** | | | | |
| **NTEREST RATE DERIVATIVES** | | | | |
| Interest rate swaps | 6 201 | 6 201 | – | 354 |
| Cross-currency interest rate swap | 7 545 | 8 106 | – | 424 |
| **Total hedging derivatives** | **13 746** | **14 307** | **–** | **778** |

## 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 legal entities with an investment grade rating assigned by foreign rating agencies.

**Sorted by listing status**

| (CZK'm) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | | AAA | | AA+ to AA- | | A+ to A- | | lower than A- |
| **SECURITIES AVAILABLE-FOR-SALE** | | | | | | | | | | |
| – listed | 2 255 | 3 542 | 263 | 424 | 1 730 | 2 776 | 262 | 342 | – | – |
| – unlisted | – | – | – | – | – | – | – | – | – | – |
| **Total** | **2 255** | **3 542** | **263** | **424** | **1 730** | **2 776** | **262** | **342** | **–** | **–** |
| **SECURITIES HELD-TO-MATURITY** | | | | | | | | | | |
| – listed | 1 095 | 1 133 | – | – | 1 095 | 1 133 | – | – | – | – |
| – unlisted | 50 | 50 | – | – | – | – | – | – | 50 | 50 |
| **Total** | **1 145** | **1 183** | **–** | **–** | **1 095** | **1 133** | **–** | **–** | **50** | **50** |

Pledged assets represent securities used in standard repurchase agreements.

**Sorted by residual maturity**

| (CZK'm) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | | AAA | | AA+ to AA- | | A+ to A- | | lower than A- |
| **SECURITIES AVAILABLE-FOR-SALE** | | | | | | | | | | |
| – listed | 183 | 1 111 | 131 | 142 | – | 969 | 52 | – | – | – |
| – unlisted | 2 072 | 2 431 | 132 | 282 | 1 730 | 1 807 | 210 | 342 | – | – |
| **Total** | **2 255** | **3 542** | **263** | **424** | **1 730** | **2 776** | **262** | **342** | **–** | **–** |
| **SECURITIES HELD-TO-MATURITY** | | | | | | | | | | |
| – listed | 176 | 124 | – | – | 176 | 124 | – | – | – | – |
| – unlisted | 969 | 1 059 | – | – | 919 | 1 009 | – | – | 50 | 50 |
| **Total** | **1 145** | **1 183** | **–** | **–** | **1 095** | **1 133** | **–** | **–** | **50** | **50** |

In 2017 and 2016, no impairment of investment securities was noted.

## 17 / TANGIBLE FIXED ASSETS

| (CZK'm) | Office equipment | Motor vehicles | Unfinished investment | **Total** |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2016 | 128 | 5 | 23 | **156** |
| Additions | 23 | – | – | **23** |
| Disposals | (1) | – | (18) | **(19)** |
| **At 31 December 2016** | **150** | **5** | **5** | **160** |
| Additions | 13 | – | 17 | **30** |
| Disposals | (22) | – | (13) | **(35)** |
| **At 31 December 2017** | **141** | **5** | **9** | **155** |
| **ACCUMULATED DEPRECIATION** | | | | |
| At 1 January 2016 | (126) | (2) | – | **(128)** |
| Additions | (16) | (1) | – | **(17)** |
| Disposals | 1 | – | – | **1** |
| **At 31 Decemberi 2016** | **(141)** | **(3)** | **–** | **(144)** |
| Additions | -9) | (1) | – | **(10)** |
| Disposals | 22 | – | – | **22** |
| **At 31 Decemberl 2017** | **(128)** | **(4)** | **–** | **(132)** |
| **CLOSING NET BOOK AMOUNT** | | | | |
| **At 31 December 2016** | **9** | **2** | **5** | **16** |
| **At 31 December 2017** | **13** | **1** | **9** | **23** |

## 18 / INTANGIBLE FIXED ASSETS

| (CZK'm) | **2017** | **2016** |
|---|---|---|
| **SOFTWARE** | | |
| **At 1 January** | | |
| Costs | 272 | 242 |
| Accumulated amortisation | (215) | (188) |
| **Opening net book amount** | **57** | **54** |
| Additions | 64 | 30 |
| Disposals | (34) | – |
| Accumulated amortisation | (33) | (27) |
| **At 31 December** | | |
| Cost | 302 | 272 |
| Accumulated amortisation | (248) | (215) |
| **Closing net book amount** | **54** | **57** |

## 19 / OTHER ASSETS

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Insurance benefit claim from EGAP | 1 662 | 75 |
| Receivable from performance of other collateral | 31 | – |
| Prepayments and accured income | 9 | 8 |
| Value added tax | 10 | 7 |
| Other receivables | 1 | 1 |
| **Total other assets** | **1 713** | **91** |
| | | |
| **Remaining maturity:** | | |
| Current other assets | 51 | 91 |
| Non-current other assets | 1 662 | – |

The insurance benefit claim is related to the business case in which a loan receivable was transferred to EGAP in the course of the insurance procedure.

## 20 / FINANCIAL LIABILITIES HELD AT AMORTISED COST

### Total financial liabilities held at amortised cost

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Deposits and other financial liabilities at amortized cost due to banks | 1 919 | 4 431 |
| Deposits and other financial liabilities at amortized cost due to clients | 1 462 | 2 115 |
| Other undifferentiated financial liabilities at amortized cost | 17 | 19 |
| Deposits, loans and other financial liabilities at amortized cost | 3 398 | 6 565 |
| Issued bonds at amortized cost | 51 914 | 66 268 |
| **Total financial liabilities at amortized cost** | **55 312** | **72 833** |
| | | |
| **Remaining maturity:** | | |
| Current | 14 500 | 16 991 |
| Non-current | 40 812 | 55 842 |

### To banks

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Short term deposits received | – | 2 054 |
| Borrowings | 1 919 | 2 377 |
| **Total financial liabilities at amortized cost due to banks** | **1 919** | **4 431** |
| | | |
| **Type of rate:** | | |
| Fixed interest rates | 427 | 2 634 |
| Variable interest rates | 1 492 | 1 797 |
| | | |
| **Remaining maturity:** | | |
| Current | 8 | 2 064 |
| Non-current | 1 911 | 2 367 |

### To clients

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Current accounts | 324 | 650 |
| Term deposits | 1 057 | 1 371 |
| Escrow accounts | 81 | 94 |
| **Total financial liabilities at amortized cost due to clients** | **1 462** | **2 115** |
| **Type of rate:** | | |
| Fixed interest rates | 1 209 | 1 537 |
| Variable interest rates | – | – |
| Interest free deposits | 253 | 578 |
| **Remaining maturity:** | | |
| Current | 1 383 | 2 028 |
| Non-current | 79 | 87 |

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

Following changes in foreign exchange rates, liabilities to banks decreased by CZK 3,504 million in 2017 (2016: an increase of CZK 170 million), of which liabilities from bond issues by CZK 3,141 million (2016: an increase of CZK 63 million). In 2017, liabilities to other clients decreased by CZK 96 million (2016: an increase of CZK 17 million).

### Debt securities in issue

| (CZK'm) | | | | | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|---|---|---|
| ISIN | Nominal | Currency | Issued | Maturity | Rate | | (%) | | (%) |
| **QUOTED COUPON BONDS** | | | | | | | | | |
| XS0332367274 | 50 | EUR | 23 November 2007 | 23 November 2017 | FIX | – | – | 1 357 | 4.5550 |
| XS0501185929 | 150 | EUR | 15 April 2010 | 15 April 2020 | FIX | 3 944 | 4.1950 | 4 172 | 4.1950 |
| XS0524914362 | 150 | EUR | 12 July 2010 | 12 July 2017 | FIX | – | – | 4 125 | 3.8500 |
| XS0598967502 | 70 | EUR | 3 March 2011 | 3 March 2021 | FIX | 1 851 | 4.4070 | 1 958 | 4.4070 |
| XS0630593233 | 3 675 | CZK | 26 May 2011 | 26 May 2021 | FLOAT | 3 680 | 1.0800 | 3 678 | 1,0600 |
| XS0680917647 | 3 675 | CZK | 22 September 2011 | 24 September 2018 | FLOAT | 3 687 | 1.1000 | 3 685 | 1.1100 |
| XS0757372114 | 250 | EUR | 15 March 2012 | 15 March 2019 | FIX | 6 561 | 3.6250 | 6 935 | 3.6250 |
| XS0792803131 | 3 870 | CZK | 14 June 2012 | 14 June 2018 | FLOAT | 3 873 | 1.1400 | 3 871 | 1.1300 |
| XS0828623073 | 50 | EUR | 3 October 2012 | 3 October 2022 | FIX | 1 281 | 2.8870 | 1 355 | 2.8870 |
| XS0849901326 | 50 | EUR | 2 November 2012 | 2 November 2018 | FIX | 1 281 | 1.8700 | 1 354 | 1.8700 |
| XS0849907281 | 50 | EUR | 5 November 2012 | 5 November 2024 | FIX | 1 283 | 3.3020 | 1 357 | 3.3020 |
| XS0850460634 | 150 | EUR | 15 November 2012 | 15 November 2022 | FIX | 3 000 | 2.4400 | 3 579 | 2.4400 |
| XS0911304326 | 40 | EUR | 8 April 2013 | 8 April 2025 | FIX | 1 042 | 2.9050 | 1 103 | 2.9050 |
| XS0931692635 | 100 | EUR | 16 May 2013 | 16 May 2018 | FLOAT | 2 554 | 0.0990 | 2 701 | 0,2060 |
| XS0973829483 | 150 | EUR | 25 September 2013 | 25 September 2020 | FLOAT | 3 832 | 0.1280 | 4 054 | 0.2370 |
| XS0997635585 | 100 | EUR | 28 November 2013 | 28 November 2017 | FLOAT | – | – | 2 701 | 0.1440 |
| XS1082830255 | 0 | EUR | 2 July 2014 | 2 July 2021 | FLOAT | 6 387 | 0.2790 | 6 759 | 0.4590 |
| XS1121094632 | 150 | EUR | 16 October 2014 | 16 October 2024 | FLOAT | 3 831 | 0.1480 | 4 054 | 0.2520 |
| XS1210661572 | 100 | EUR | 1 April 2015 | 3 April 2023 | FLOAT | 2 550 | – | 2 697 | – |
| XS1298549954 | – | USD | 29 September 2015 | 29 September 2017 | FLOAT | – | – | 1 537 | 1.3538 |
| XS1298556579 | – | USD | 29 September 2015 | 29 September 2018 | FLOAT | 1 277 | 1.9828 | 1 536 | 1.5038 |
| **UNQUOTED BILLS** | | | | | | | | | |
| XS1406953437 | 1 000 | CZK | 3 May 2016 | 3 February 2017 | FIX | – | – | 1 000 | – |
| XS1408473053 | 700 | CZK | 5 May 2016 | 6 February 2017 | FIX | – | – | 700 | – |
| | | | | | | **51 914** | | **66 268** | |
| **Remaining maturity:** | | | | | | | | | |
| Current | | | | | | 13 092 | | 12 899 | |
| Non-current | | | | | | 38 822 | | 53 369 | |

Bonds issued by the Bank are listed on the Luxembourg Stock Exchange.

## 21 / OTHER LIABILITIES

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Accruals and deferrals | 34 | 6 |
| Estimated payables to employees | 37 | 35 |
| Estimated items – at the expense of early termination of business | 14 | – |
| Estimated payable for VAT – a difference of coefficients | 6 | – |
| Payables to clients from payment transactions and received bail | 50 | 212 |
| Miscellaneous payables | 20 | 15 |
| **Total other liabilities** | **161** | **268** |
| **Remaining maturity:** | | |
| Current other liabilities | 135 | 261 |
| Non-current other liabilities | 26 | 7 |

In 2017, accruals and deferrals include a commitment in the amount of CZK 31 million to refund an unused advance received to subsidise a loss from officially supported financing (2016: CZK 0).

## 22 / PROVISIONS

| (CZK'm | 2017 | 2016 |
|---|---|---|
| **PROVISIONS FOR DEFERRED COMPENSATION INCLUDING PAYMENTS INSURANCE** | | |
| **At 1 January** | **51** | **46** |
| Additions to provision | 11 | 11 |
| Release of reserves | (9) | (5) |
| Usage of provision | (3) | (1) |
| **At 31 December** | 50 | 51 |
| **PROVISIONS FOR EMPLOYEE BENEFITS** | | |
| **At 1 January** | **1** | **2** |
| Additions to provision | 1 | – |
| Release of reserves | – | (1) |
| Usage of provision | (1) | – |
| **At 31 December** | **1** | **1** |
| **PROVISION FOR GUARANTEES GIVEN** | | |
| **At 1 January** | 21 | 12 |
| Additions to provision | 99 | 9 |
| Release of reserves | (2) | – |
| Usage of provision | – | – |
| **At 31 December** | 118 | 21 |
| **PROVISION FOR EXPENSES RETROACTIVELY RAISED THE VAT DEDUCTION** | | |
| **At 1 January** | **22** | **34** |
| Additions to provision | – | – |
| Release of reserves | – | (12) |
| Usage of provision | – | – |
| **At 31 December** | **22** | **22** |
| **Total provisions** | **191** | **95** |

## 23 / DEFERRED INCOME TAXES

Deferred income tax for 2017 is calculated using the tax rates effective in the years of the expected use of deferred tax in the amount of 19% for 2018 and the following years.

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

| (CZK'm) | Note | 2017 | 2016 |
|---|---|---|---|
| **At 1 January** | | **32** | **74** |
| Deferred expenses to provisions for additional application of VAT | | – | (3) |
| Deferred tax on tangible and intangible assets | | 3 | 1 |
| Deferred fee and interest income | | – | (1) |
| Deferred tax to reserves | | – | 1 |
| Deferred tax unpaid penalty interest | | 6 | (6) |
| Tax non-deductible creation of allowances for losses on loans | | – | – |
| Total income statement charge | 11 | 9 | (8) |
| **AVAILABLE-FOR-SALE SECURITIES** | | | |
| – change in deferred tax for-sale securities | 25 | 10 | 4 |
| **CASH FLOW HEDGES** | | | |
| – change in deferred tax on hedging derivatives | 25 | – | (38) |
| **At 31 December** | | **51** | **32** |

Deferred income tax assets and liabilities were incurred on the following terms:

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| **DEFERRED INCOME TAX LIABILITIES** | | |
| Accelerated tax depreciation | (3) | (6) |
| Available-for-sale securities | (12) | (22) |
| Revenues from unpaid penalty interest | – | (6) |
| | (15) | (34) |
| **DEFERRED INCOME TAX ASSETS** | | |
| Deferred tax assets to the reserves for later application of VAT | 4 | 4 |
| Tax non-deductible creation of provision for long term benefits | 16 | 16 |
| Cash flow hedges | 46 | 46 |
| | 66 | 66 |
| **Net deferred income tax assets/(liabilities)** | **51** | **32** |

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset tax assets against tax liabilities. A deferred tax asset is created for securities that are expected to have a sufficient tax base for their recovery in subsequent taxation periods. The tax loss recognised for 2017 of CZK 766 million does not give rise to a deferred tax asset, as this is not the case.

## 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). With effect from 1 October 2015, Act No. 58/1995 Coll. has no longer stipulated that the remaining shares of the Bank must be owned by EGAP. All of the Bank's issued shares are ordinary shares and carry no special rights.

In 2016, the share capital of the Bank was increased by CZK 1,000 million to CZK 5,000 million.

| (CZK'm) | Number of shares | Nominal value per share | Total nominal value | Share |
|---|---|---|---|---|
| | (#) | | | (%) |
| **31 December 2017** | | | | |
| Czech state | 3 200 | 1 | 3 200 | |
| Czech state | 100 | 10 | 1 000 | |
| Czech state total[1] | 3 300 | | 4 200 | 84.0 |
| EGAP | 300 | 1 | 300 | |
| EGAP | 50 | 10 | 500 | |
| EGAP total | 350 | | 800 | 16.0 |
| **Total** | **3 650** | | **5 000** | **100.0** |
| **31 December 2016** | | | | |
| Czech state | 3 200 | 1 | 3 200 | |
| Czech state | 100 | 10 | 1 000 | |
| Czech state total[1] | 3 300 | | 4 200 | 84.0 |
| EGAP | 300 | 1 | 300 | |
| EGAP | 50 | 10 | 500 | |
| EGAP total | 350 | | 800 | 16.0 |
| **Total** | **3 650** | | **5 000** | **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

## 25 / VALUATION DIFFERENCES

| (CZK'm) | Note | 2017 | 2016 |
|---|---|---|---|
| **AVAILABLE-FOR-SALE SECURITIES** | | | |
| **At 1 January** | | **94** | **109** |
| Changes in fair value | | (48) | (19) |
| Deferred income taxes | 23 | 10 | 4 |
| **Total change** | | **(38)** | **(15)** |
| **At 31 December** | | **56** | **94** |
| **CASH FLOW HEDGES** | | | |
| **At 1 January** | | **(192)** | **(351)** |
| Changes in fair value | | (1) | 197 |
| Deferred income taxes | 23 | – | (38) |
| **Total change** | | **(1)** | **159** |
| **At 31 December** | | **(193)** | **(192)** |
| **Revaluation Total** | | **(137)** | **(98)** |

## 26 / RESERVES

### Statutory reserve

In accordance with the Business Corporations Act and based on its new Articles of Association, the Bank is required to recognise a statutory reserve from profit or from shareholders' contributions.

The Bank allocates 5% of net profit to the statutory reserve until the level of 20% of share capital is achieved. This reserve can be used exclusively to cover losses. In 2017, it was increased by CZK 21 million through a 2016 profit allocation.

### Other special funds

The Bank creates an export risk fund, which is intended primarily to cover losses of the Bank. In 2016, it was used to cover the loss from 2015 of CZK 141 million. In 2017 it was increased by CZK 398 million through a 2016 profit allocation. The remaining balance of the fund is CZK 834 million.

## 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) | 2017 | 2016 |
|---|---|---|
| **CREDIT COMMITMENTS** | | |
| Payment guarantees | 13 | 51 |
| Non-payment guarantees[2] | 1 708 | 2 060 |
| Guarantees from confirmed letter of credit | 1 702 | 2 594 |
| **Total** | **3 423** | **4 705** |

### Received collateral and pledges

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Payment guarantees | 1 295 | 1 678 |
| Non-payment guarantees[2] | – | – |
| **Total accepted guarantees** | **1 295** | **1 678** |
| Insurance with state subsidy | 48 279 | 63 973 |
| Insurance without state subsidy | 8 | 121 |
| **Total accepted insurance** | **48 287** | **64 094** |
| Cash | 125 | 228 |
| Securities | 3 | 8 |
| **Total other collateral accepted** | **128** | **236** |
| **Securities accepted in reverse repo transactions** | **2 563** | **7 778** |

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

Contingent assets (received irrevocable guarantees, collateral and insurance) are stated at the value of supplies from contingent assets expected by the Bank in the event of a debtor's default and subsequent foreclosure of assets in favour of the Bank. This is to collateralise balance-sheet and off-balance sheet exposures of the Bank.

Securities received in reverse repo transactions arise from transactions concluded with the Czech National Bank.

### Operating leases

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

| (CZK'm) | 2017 | 2016 |
|---|---|---|
| Czech Republic | 17 | 19 |
| Russian Federation | 1 | 1 |
| **Within 1 year** | **18** | **20** |

## 28 / RELATED-PARTY TRANSACTIONS

The Bank provides specialised services supporting export activities in accordance with Act No. 58/1995 Coll. This Act also determines the ownership structure. The Bank is fully controlled by the Czech state, which owns 84% of the Bank's share capital directly and 16% 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 and related expense and income are as follows:

**Balances with entities controlled by the same controlling entity (Czech state) or having significant influence**

| (CZK'm) | | **2017** | | **2016** |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | Balance at December 31 | Income | Balance at December 31 | Income |
| **PLACEMENTS WITH BANKS** | | | | |
| Česká národní banka (central bank) | 2 760 | 8 | 8 610 | 1 |
| Českomoravská záruční a rozvojová banka, a.s. | – | (12) | 95 | 6 |
| **BONDS HELD-TO-MATURITY** | | | | |
| Ministerstvo financí ČR | 2 769 | 24 | 3 848 | 66 |
| **PREMIUMS RECEIVABLE AND OTHER RECEIVABLES** | | | | |
| EGAP, a.s. | 1 683 | 43 | 98 | – |
| **Total financial assets** | **7 212** | **63** | **12 651** | **73** |

| (CZK'm) | | **2017** | | **2016** |
|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | Balance at December 31i | Expense | Balance at December 31 | Expense |
| **DUE TO CLIENTS** | | | | |
| EGAP, a.s. | 1 024 | (6) | 274 | (11) |
| **Total financial liabilities** | **1 024** | **(6)** | **274** | **(11)** |

Movements on the Czech state subsidy account for losses arising from the operation of officially supported financing are disclosed in Note 8.

Salaries and bonuses paid to members of the Board of Directors and the Supervisory Board are disclosed in Note 9.

## 29 / SUBSEQUENT EVENTS

All events that occurred subsequent to the balance sheet date and prior to the financial statements preparation date and that had a material impact on the financial statements as of 31 December 2017 have been taken into account.

Date of preparation: 26 March 2018

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

Ing. Karel Bureš
Chairman of the Board of Directors
and CEO

Ing. David Marek
Vice-Chairman of the Board of Directors
and Deputy CEO

# 5 | Related Party Transactions Report

# 5 ● Related Party Transactions Report

Prepared in accordance with Section 82 (1) of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Act on Business Corporations), as amended.

| | |
|---|---|
| Company name: | Česká exportní banka, a.s. (hereinafter the "Bank") |
| Registered office: | Vodičkova 701/34, Prague 1, 111 21 |
| Corporate ID: | 63078333 |
| Tax ID: | CZ63078333 |
| Recorded in the Register of Companies: | Municipal Court in Prague, File B, Insert 3042 |

**a/ Structure of Relations between the Controlling Entities and the Controlled Entity and Relations between the Controlled Entity and Entities Controlled by the Same Controlling Entity**


*For information on other related parties refer to Appendix 1*

**b/ Role of the Controlled Entity**

Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, authorised the Bank primarily to finance exports with state support in line with international rules on state aid applied in financing export credits with maturity exceeding two years (predominantly the "OECD Arrangement on Officially Supported Export Credits") and the WTO's policies.

In terms of Section 8 (1) (b) of Act No. 58/1995 Coll., on Insuring and Financing Exports with State Support, the state is held liable for the Bank's obligations arising from payments of funds received by the Bank and for obligations arising from the Bank's other transactions on the financial markets.

**c/ Method and Means of Control**

The controlling entity of the Bank is the state. The state performs its shareholder rights directly through the ministries referred to below and indirectly through Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Corporation)

**Composition of shareholders as of 31 December 2017 and their share in voting rights:**

| | |
|---|---|
| **1. State** | **84% of shares** |
| In order to determine the majority of votes of the ministries, the votes are divided as follows: | |
| Ministry of Finance of the Czech Republic<br>based at Letenská 15, Prague 1, 118 10, corporate ID 00006947 | 2,184 votes |
| Ministry of Industry and Trade of the Czech Republic<br>based at Na Františku 32, Prague 1, 110 15, corporate ID 47609109 | 1,260 votes |
| Ministry of Foreign Affairs of the Czech Republic<br>based at Loretánské nám. 5, Prague 1, 180 00, corporate ID 45769851 | 504 votes |
| Ministry of Agriculture of the Czech Republic<br>based at Těšnov 17, Prague 1, 117 05, corporate ID 00020478 | 252 votes |
| **2. Exportní garanční a pojišťovací společnost, a.s.**<br>based at Vodičkova 34, Prague 1, 111 21, corporate ID45279314 | **16% of shares** |

Individual shareholders exercise their rights primarily through:

**General Meeting** the supreme body of the Bank that decides through the majority of present shareholders on the issues that are entrusted into its competencies by Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Act on Business Corporations), as amended, and the Bank's Articles of Association; and

**Supervisory Board** he control body of the Bank that supervises the activities of the Board of Directors and business activities of the Bank and presents its statements to the General Meeting.

**d/ List of Actions Taken in the Reporting Period**

The Bank took no actions regarding assets that exceed 10% of the equity of the controlled entity as identified on the basis of the most recent set of financial statements, at the initiative or in the interest of the controlling entity or entities controlled by it.

**e – f/ List of Mutual Contracts between the Controlled Entity and the Controlling Entity or Controlled Entities (Exportní garanční a pojišťovací společnost, a.s.)**

**Agreement on the Insurance of Export Credit Risks in Line with the General Insurance Terms**

1. Agreement on the Insurance of Export Credit Risks in Line with the General Insurance Terms
2. Insurance Agreement No. 202001614 of 26 October 2017;
3. Insurance Agreement No. 202001647 of 27 November 2017;
4. Insurance Agreement No. 202001568 of 12 October 2017;
5. Insurance Agreement No. 202001412 of 23 March 2017;
6. Insurance Agreement No. 202001401 of 18 January 2017;
7. Insurance Agreement No. 202001603 of 20 November 2017;
8. Insurance Agreement No. 202001434 of 7 April 2017; and
9. Insurance Agreement No. 107011057 of 30 August 2017.

**Amendments to Individual Insurance Agreements**

1. Amendment No.4 to Agreement No.121000319 of 15 June 2017;
2. Amendment No.3 to Agreement No.121000286 of 22 June 2017;
3. Amendment No.2 to Agreement No.121000387 of 22 June 2017;
4. Amendment No.2 to Agreement No.121000095 of 22 June2017;
5. Amendment No.9 to Agreement No.107008291 of 12 October 2017;
6. Amendment No.10 to Agreement No.107008291 of 31 October 2017;
7. Amendment No.2 to Agreement No.135006299 of 21 April 2017;
8. Amendment No.3 to Agreement No.135006299 of 12 July 2017;
9. Amendment No.4 to Agreement No.135006299 of 29 September 2017;
10. Amendment No.5 to Agreement No.135006299 of 18 December 2017;
11. Amendment No.6 to Agreement No.135006027 of 17 July 2017;
12. Amendment No.1 to Agreement No.125008188 of 12 July 2017;
13. Amendment No.6 to Agreement No.133005904 of 27 March2017;
14. Amendment No.7 to Agreement No.133005904 of 20 July 2017;
15. Amendment No.8 to Agreement No.133005904 of 17 August 2017;
16. Amendment No.9 to Agreement No.133005904 of 20 September 2017;
17. Amendment No.10 to Agreement No.133005904 of 23 October 2017;
18. Amendment No.1 to Agreement No.202001309 of 22 February 2017;
19. Amendment No.1 to Agreement No.202001434 of 25 May 2017;
20. Amendment No.1 to Agreement No.202001401 of 18 July 2017;
21. Amendment No.7 to Agreement No.107008177 of 2 February 2017;
22. Amendment No.5 to Agreement No.133006049 of 28 April 2017;
23. Amendment No.3 to Agreement No.133006051 of 28 April 2017;
24. Amendment No.6 to Agreement No.137002196 of 9 May 2017;

25. Amendment No.4 to Agreement No.137001926 of 6 November 2017;
26. Amendment No.6 to Agreement No.133004813 of 16 August 2017;
27. Amendment No.6 to Agreement No.137001915 of 16 August 2017;
28. Amendment No.5 to Agreement No.135005164 of 3 November 2017;
29. Amendment No.4 to Agreement No. 133004824 of 6 November 2017;
30. Amendment No.3 to Agreement No.121000016 of 22 June 2017;
31. Amendment No.3 to Agreement No.121000027 of 22 June 2017; and
32. Amendment No.2 to Agreement No.121000106 of 22 June 2017.

**Insurance Rulings**

1. Insurance Ruling No. 001 to Limited Insurance Agreement No. 202001434 of 18 April 2017;
2. Insurance Ruling No. 002 to Limited Insurance Agreement No. 202001434 of 10 May 2017;
3. Insurance Ruling No. 003 to Limited Insurance Agreement No. 202001434 of 10 May 2017;
4. Insurance Ruling No. 004 to Limited Insurance Agreement No. 202001434 of 6 June 2017;
5. Insurance Ruling No. 005 to Limited Insurance Agreement No. 202001434 of 18 December 2017;
6. Insurance Ruling No. 001 to Limited Insurance Agreement No. 202001401 of 18 January 2017;
7. Insurance Ruling No. 002 to Limited Insurance Agreement No. 202001401 of 19 September 2017;
8. Insurance Ruling No. 003 to Limited Insurance Agreement No. 202001401 of 20 September 2017;
9. Insurance Ruling No. 004 to Limited Insurance Agreement No. 202001401 of 20 September 2017;
10. Insurance Ruling No. 005 to Limited Insurance Agreement No. 202001401 of 13 October 2017;
11. Insurance Ruling No. 006 to Limited Insurance Agreement No. 202001401 of 13 October 2017;
12. Insurance Ruling No. 007 to Limited Insurance Agreement No. 202001401 of 24 October 2017;
13. Insurance Ruling No. 008 to Limited Insurance Agreement No. 202001401 of 24 October 2017;
14. Insurance Ruling No. 009 to Limited Insurance Agreement No. 202001401 of 21 November 2017;
15. Insurance Ruling No. 010 to Limited Insurance Agreement No. 202001401 of 22 November 2017;
16. Insurance Ruling No. 011 to Limited Insurance Agreement No. 202001401 of 28 November 2017;
17. Insurance Ruling No. 012 to Limited Insurance Agreement No. 202001401 of 21 December 2017; and
18. Insurance Ruling No. 002 to Limited Insurance Agreement No. 107010539 of 27 January 2017.

**Other Agreements**

1. Agreement on the Partial Assignment of a Contract Related to Insurance Agreement No. 202001232 of 26 April 2017;
2. Agreement on the Partial Assignment of a Contract Related to Insurance Agreement No. 202001311 of 28 June 2017;
3. Agreement to Amend the Rights and Obligations Related to Insurance Agreement No. 107009257 of 1 September 2017; and
4. Assignment Contract Related to Insurance Agreement No. 107005758 of 24 July 2017.

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

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 other measures at its own will or in the interest or at the initiative of other related parties, other than those referred to above.

**g/ Benefits and Disadvantages Arising from Relations between the Controlling Entity and the Controlled Entity and between the Controlled Entity and Entities Controlled by the Same Controlling Entity**

The relations between the Bank and the shareholders give rise to clear benefits taking the following form:

- Easier access to economic diplomacy;
- Possibility of obtaining rating at the sovereign level which provides the Bank with an opportunity to gain cheaper funds on markets;
- Better presentation of Czech exporters in countries where the connection of the export bank to the state is perceived as essential;
- More effective coordination of various types of financing, advisory and insurance for the support of Czech exports; and
- More effective approach to the process of amending the legislation that defines the terms of supported financing in order to meet the current needs of Czech exporters and their suppliers during export transactions.

In Prague on 26 March 2018

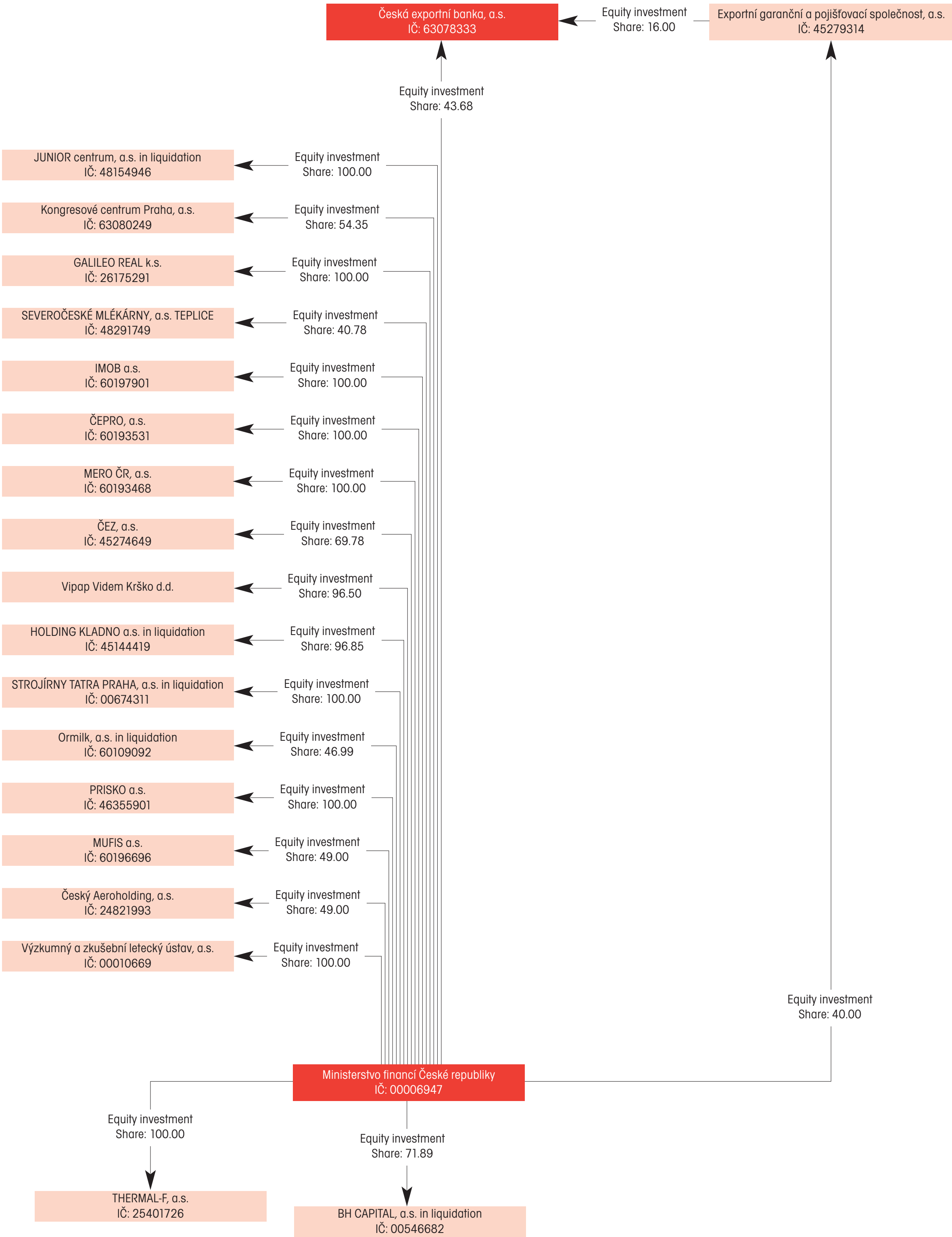
Ing. Karel Bureš
Chairman of the Board of Directors

Ing. David Marek
Vice-chairman of the Board of Directors

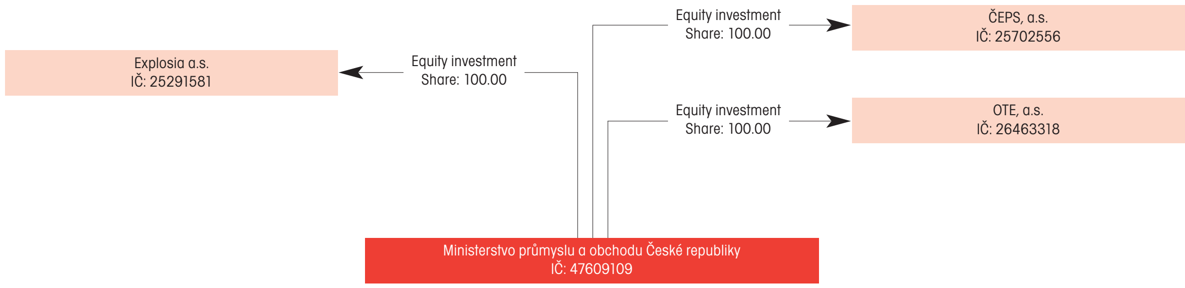
*Appendix 1*

### List of Joint Stock Companies Controlled by Shareholders Holding an Equity Investment between 40% and 100%

### Ministry of Finance of the Czech Republic



### Ministry of Industry and Trade of the Czech Republic




### Ministry of Agriculture of the Czech Republic