2018

ANNUAL REPORT 2018
CZECH EXPORT BANK

CZECH EXPORT BANK
ČESKÁ EXPORTNÍ BANKA

Foreword of the Chairman of the Board of Directors

Dear Business Partners, Dear Exporters,

Last year was another successful year for Czech export. The high demand for Czech technologies abroad is also reflected in the need to fund domestic export – and ČEB's role is to support Czech firms in international competition.

In 2018, ČEB supported the highest volume of transactions in the past three years, it financed 135 business cases with more than CZK 5.6 billion. What is important is the fact that none of the new loans carries any imminent risks of credit loss. It is mostly thanks to the fact we do many things differently than our predecessors did. The Bank does not provide "strictly" project financing based solely on the future cash flow of the project, nor does it finance firms without a history - be it on the side of the debtor or on the side of the exporter. We work with a functional system of territorial and sector limits and we always realise large loan transactions in clubs or syndicates with the commercial banking sector.

In the past year, Czech economy reached record results in many areas. However, at the time of abundance, ČEB economised. We managed to reduce the cost base, which was mainly the result of a year-on-year reduction of the headcount of 7%.

However, it must be stated that we have not yet been able to resolve the infamous legacy of the Adularya power station in Turkey. The tender for the sale of the assets of the power station organised by the Turkish management fund TSMF did not attract any potential buyers. Thus, one of the main aims of the Bank is another tender for the sale of the power station under amended conditions. As to the business approach, this year we will emphasise our presence and activities in the regions of Africa and Southeast Asia, ie in regions that we consider priority for Czech exporters in terms of market diversification and where we understand ČEB's role and added value is the most significant. Simultaneously, it is essential for the management of the Bank to keep ČEB in a good condition so that it is ready and prepared to support Czech exporters at the time when Czech economy slows down.

Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors and CEO

Auditor's Report >>

Deloitte.

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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 2018, 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 2018, 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 469 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.

Key audit matter	Related audit procedures
Allowances for the loans and receivables	
Refer to Note 14 of the financial statements The assessment of loan loss provisions for loans to clients requires Bank management to exercise a significant level of judgment, especially with regards to identifying impaired receivables and quantifying loan impairment. To assess the amount of provisions for expected losses, the Bank applies statistical models with input parameters from internal and external sources.	We assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate provisions for the selected significant loan portfolios. We tested the design of key controls management of the Bank has established over the impairment assessment processes.

In accordance with the requirements of IFRS 9 Financial Instruments, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and subjective judgments of the Bank. The assessment of classification to impairment stages includes: • Comparison between given rating at the initial recognition of the receivable and at each reporting date, • Absolute factors such as limits set by related regulations (ie 30 days past due), • Other factors with internal relevance for the Bank (eg. Breach of covenants, etc.). Where no repayment difficulties have been identified for a particular receivable, the Bank creates a provision using the statistical model for loans (Stage 1). The expected loan loss provision is calculated using available historical data and anticipated future development determined using macroeconomic indicators. The statistical model used is based on the probability of default and the estimated amount of the loss given default. Input data for the model and the calculation logic and its comprehensiveness depend on judgment of Bank management. When determining the provision level for loans using individual assessment (Stage 2 & Stage 3): a) Amount and timing of expected future cash flows; b) Collateral value. The loan loss provisions for expected losses for loans at Stage 1 and Stage 2 represent CZK 145 million. The loan loss provision for impaired loans at Stage 3 represents CZK 7 026 million of the total recognised amount of CZK 59 261 million as at 31 December 2018.	For receivables regarding which the Bank has not identified any difficulties likely to prevent the full repayment of receivables (Stage 1), the testing focused on correct classification of receivables to corresponding impairment stages. Our credit risk experts assessed the amounts of provisions for Stage 1 and reviewed the adequacy of management judgments as regards the probability of loan default and the estimated amount of loss given default. For provisions for loan losses at Stage 2 and Stage 3, the testing included controls related to creation, regular client creditworthiness review processes, management review and approval of the impairment evaluation results. On a sample of exposures, we evaluated appropriateness of provisioning methodologies and their application. We formed an independent view on the levels of provisions required by examining available external and internal information. This work involved assessing the work performed by experts used by the Bank to value the collateral or to assess the estimates of future cash flows.
Key audit matter	**Related audit procedures**
Interest and fee income recognition	
(See Note 6 and Note 7 of the Financial Statements for the details) For the year ended 31 December 2018 the net interest income and similar income was CZK 969 million and net fee and commission income was CZK 8 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. 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	We evaluated the design of the key internal controls and focused on : • Assessment of interest/fees recognition during new product validation; • 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; • Recording of fee and interest income and management oversight; and • IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists. We performed the following procedures with regard to interest and fees revenue recognition: 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

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 recognized using the interest rate that was used to discount cash flows in order to determine impairment. 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 and service fees are recognised based on the appropriate service contracts, usually on an accrual basis. 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.	requirement of the relevant accounting standard (IFRS 9). We focused our testing on the correct classification of: • Fees that are identified as directly attributable to the financial instrument; • Fees that are not identified as directly attributable to the financial instrument. 2) We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan. We have analysed correctness of the recorded amount of interest income and fee and commission income using substantive analytical tests. These tests included determination of expected volumes of income based on the observed historical development over past years and the actual development of the market, which was compared to the related amount recorded by the Bank.

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 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 is 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:

Appointment of the Auditor and the Period of Engagement

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 10 years.

Consistence with the Additional Report to the Audit Committee

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 29 March 2019 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 2018 which is included in this annual report on pages 124 to 129. 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 2018 contains material factual misstatements.

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

In Prague on 29 March 2019

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	2018	1 Jan 2018	2017
Financial results[1]				
Net interest income	CZK million	969		641
Net fee and commission income	CZK million	8		11
Operating income including state subsidies	CZK million	(66)		68
Asset impairment	CZK million	(367)		52
Total operating costs	CZK million	(402)		(411)
Income Tax	CZK million	129		(2)
Net profit	CZK million	352		257
Balance sheet				
Total assets	CZK million	57,446	62,640	62,755
Amounts due from customers	CZK million	40,177	48,847	48,940
Receivables not classified by sectors	CZK million	–	–	22
Amounts due from banks	CZK million	11,913	7,195	3,896
Client deposits	CZK million	965	1,462	1,462
Bank deposits	CZK million	5,915	1,936	1,919
Other receivables not classified by sectors	CZK million	–	–	17
Issued bonds	CZK million	39,130	51,914	51,914
Total equity	CZK million	7,068	6,591	6,714
Ratios[2]				
Return on average assets (ROAA)	%	0.56		0.35
Return on average equity tier 1 (ROAE)	%	5.31		3.99
Total capital ratio	%	89.24		80.26
Assets per employee (ROAE)	CZK million	396.18		399.71
Administrative expenses per employee (ROAE)	CZK million	(2.12)		(1.93)
Net profit or loss per employee	CZK million	2.43		1.64
Other information				
Average headcount	employees	150		156
Headcount (as of 31 December)	employees	145		157
Guarantees issued	CZK million	1,134		1,721
Loan commitments	CZK million	4,976		1,702
Rating – long term payables				
Moody's	–	A1		A1
Standard & Poor's	–	AA-		AA-

Source: ČEB

[1)] Categories including the comparable period are disclosed in accordance with the definitions of the Financial Reporting Standards (FINREP).

Operating income including state subsidies
Net profit/loss from financial operations including state subsidies + Other operating income source: Profit and Loss account

Total operating costs
Administrative expenses + Amortisation and Depreciation + Other operating costs source: Profit and Loss account

[2)] Ratios are published every quarter on the Bank's website and are calculated based on the formulas stated below:
https://www.ceb.cz/en/about-us/mandatory-disclosure-of-information/regular-quarterly-information/

Return on average assets (ROAA)
Net profit for the accounting period divided by average total assets.
Average total assets: sum of monthly total assets at the end of year X-1 up to the end of year X divided by 13.

Return on average equity (ROAE)
Net profit for the accounting period divided by the average Tier 1 capital.
Average Tier 1 capital: sum of monthly Tier 1 capital values at the end of year X-1 up to the end of year X divided by 13.

Total capital ratio
Capital at year-end divided by total risk exposures at year-end.

Assets per employee
Total assets for the accounting period divided by the registered number of employees.

Administrative expenses per employee
Administrative expenses for the accounting period divided by the registered number of employees.

Net profit per employee
Net profit for the accounting period divided by the registered number of employees.

1

Profile of ČEB

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.

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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 2018: 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 Vodičkova 34 č.p. 701 PSČ 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 250/2016 Coll.,	on Liability on Administrative Offences and their Procedures;
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 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 67/2018 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 424/2017 Coll.,	on Reporting Duties of Some Entities Operating on the Capital Market;
Regulation 319/2017 Coll.,	on Professional Qualification for Distribution on the Capital Market;
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 (EC) No.1233/2011 dated 16 November 2011 as well as the application of certain rules in the area of state-supported export credits are directly legally binding for CEB.

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 162 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.

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 27,212 in 2018.

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 2018.

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 2018 as stipulated by the Czech National Bank amounted to CZK 11.7 million.

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.

The Supervisory Board as of 31 December 2018 *(with changes that occurred in 2018)*[1]

Vice-Chairman	
Ing. Vladimír Bärtl	since 26 May 2016

Members	
Jan Drahota, MBA	since 24 April 2017, *resigned from his position on 26 March 2019*
Ing. Jakub Skavroň	since 21 December 2017
Ing. Miroslav Zámečník	since 24 April 2017
doc. PhDr. Petr Teplý, Ph.D.	since 23 June 2014
Ing. Vladimír Pikora, Ph.D.	*from 30 April 2015 to 31 July 2018*
Tomáš Pubrdle, MA	*from 15 January 2016 to 31July 2018*

Board of Directors[2] – 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.

The Board of Directors as of 31 December 2018 (with changes that occurred in 2018)

Chairman	
Ing. Jaroslav Výborný, MBA Chairman of the Board of Directors/ Chief Executive Officer In charge of Export Financing	Member since 1 July 2015, from 22 September 2016 to 26 March 2018 and Chairman since 27 March 2018
Ing. Karel Bureš *Chairman of the Board of Directors/ Chief Executive Officer*	*Member since 1 January 2014,* *Chairman from 1 June 2014 to 26 March 2018*

Vice-Chairman	
JUDr. Martin Draslar, Ph.D. Vice-Chairman of the Board of Directors In charge of Finance and Operations	Member from 15 October 2015 to 15 August 2018 and Vice-Chairman since 16 August 2018

[1] In compliance with the amendment of the Bank's Articles of Association, the number of members of the Supervisory Board was reduced from seven (7) members to five (5) members on 27 July 2018

[2] In compliance with the amendment of the Bank's Articles of Association, the number of members of the Board of Directors was reduced from five (5) to three (3) members on 27 July 2018.

Ing. David Marek *Vice Chairman of the Board of Directors* *In charge of Risk Management* *and Risk Bearing Debt Management* [3]	*Member since 1 December 2014,* *Vice-Chairman from 18 June 2015 to 31July 2018*

Members

Ing. Emil Holan Member of the Board of Directors In charge of Risk Management	Member since 1 August 2018
Ing. Miloš Večeřa *Member of the Board of Directors* *In charge of Export Financing*	*Member from 1 January 2014 to 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 2018 was as follows:

Chairman

Ing. Ladislav Langr	Member since 23 November 2014 And chairman from 10 December 2014 to 23 November 2018, Re-elected member and Chairman since 19 December 2018

Members

Ing. Radovan Odstrčil	Member since 27 April 2016
Ing. Ladislav Zelinka, Ph.D.	Replacement member since 8 February 2017, Member since 24 April 2017, Resigned from his position on 21 March 2019

3) As of 1 June 2018 , the Department of Risk Bearing Debts was abolished and included in the Restructuring and Debt Collection Department in the Risk Management Division.

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. Since 1 July 2018, this decision making body has assumed certain competencies of the Board of Directors, such as negotiating and approving business cases.

The Composition of the Credit Committee in 2018 was as follows:

Chairman of the Credit Committee **Ing. Emil Holan** Member of the Board of Directors In charge of Risk Management	Member until 31 July 2018, Chairman since 1 August 2018
Ing. David Marek *Vice-Chairman of the Board of Directors* *In charge of Risk-bearing Debt Management [4]* *and Risk Management*	*Vice-chairman until 26 March 2018,* *Chairman from 27 March 2018 to 31 July 2018 In*
Ing. Jaroslav Výborný, MBA *Vice-Chairman of the Board of Directors* *In charge of Risk Management*	*Chairman until 26 March 2018*
Vice-Chairman of the Credit Committee **Ing. Jaroslav Výborný, MBA** Vice-Chairman of the Board of Directors In charge of Export Financing	Vice-Chairman since 27 March 2018
Ing. Miloš Večeřa *Member of the Board of Directors* *In charge of Export Financing*	*Vice-Chairman from 1January 2018 to 28 February 2018*
Member of the Credit Committee **JUDr. Martin Draslar, Ph.D** Vice-Chairman of the Board of Directors In charge of Finance and Operations	Member since 1 July 2018
Members of the Credit Committee on behalf of Risk **Ing. Jiří Soukup** Director of Loan Analysis Department	
PhDr. Václav Fišer Director of Credit Risk Management	Member since 1 September 2018

[4] On 1 June 2018 , the Department of Risk Bearing Debts was abolished and included in the Restructuring and Debt Collection Department in the Risk Management Division

Members of Credit Committee on behalf of Export Financing

Ing. Miloš Welser
Vice-Deputy of Export Financing

Ing. Tomáš Hadžega — Member since 13 August 2018
Director of Export Financing

Ing. Monika Vilhelmová — *Member until 31July 2018*
Director of Export Financing and Trade Finance

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 2018 was as follows:

Předseda Komise pro řízení aktiv a pasiv

Ing. Jaroslav Výborný, MBA — Vice-Chairman until 26 March 2018,
Chairman of the Board of Directors/CEO — Chairman since 27 March 2018

Ing. Karel Bureš — *Chairman until 26 March 20188*
Chairman of the Board of Directors/CEO

Vice-Chairman

Ing. Emil Holan — Vice-Chairman since1 August 2018
Member of the Board of Directors
In charge of Risk Management

Ing. David Marek — *Vice-Chairman from 27 March 2018 to 31 July 2018*
Vice-Chairman of the Board of Directors
In charge of Risk Management

Members

JUDr. Martin Draslar, Ph.D. — Member since 16 April 2018
Vice-Chairman of the Board of Directors
In charge of Finance and Operations

Ing. Miloš Welser — Member since 1 May 2018
Vice-Deputy of Export Financing

Ing. David Franta, MBA
Director of Treasury

Ing. Roman Somol, MBA
Leader of Banking Risks Management

Ing. František Jakub, Ph.D.
Director of Finance and Accounting

Ing. Eva Hubková — *Member until 15 April 2018*
Sourcing manager – senior

Ing. Monika Vilhelmová — *Member from 1 April 2018 to 30 April 2018*
Director of Export Financing and Trade Finance

Ing. Miloš Večeřa — *Member from 1 January 2018 to 28 February 2018*
Member of the Board of Directors
In charge of Export Financing

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 2018 was as follows:

Chairman
JUDr. Martin Draslar, Ph.D.
Vice-Chairman of the Board of Directors
In charge of Finance and Operations

Vice-Chairman
Ing. Emil Holan — Vice-Chairman since 1 August 2018
člen Představenstva
Member of the Board of Directors
In charge of Risk Management

Ing. David Marek — *Vice-Chairman from 27 March 2018 to 31 July 2018*
Vice-Chairman of the Board of Directors
In charge of Risk Management

Ing. Jaroslav Výborný, MBA — *Vice-Chairman until 26 March 2018*
Vice-Chairman of the Board of Directors
In charge of Risk Management

Members
Ing. Jan Bukovský
ICT Security Inspector

Ing. Hana Vondráčková
Credit Methodologist

Ing. Petr Jindrák
Director of Banking IS Development

Ing. Pavel Kašpar
Director of Banking IS Operation

Ing. Dagmar Zelisková — Member since 16 August 2018
Statistics Analyst

Ing. Filip Major, MBA — *Member until 15 August 2018*
Manager of International Relations – senior

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 2018 was as follows:

Chairman
Ing. Emil Holan — Chairman since 1 August 2018
Member of the Board of Directors
In charge of Risk Management

Ing. David Marek — *from 27 March 2018 to 31 July 2018*
Vice-Chairman of the Board of Directors
In charge of Risk Management

Ing. Jaroslav Výborný, MBA — *until 26 March 2018*
Vice-Chairman of the Board of Directors
In charge of Risk Management

Vice-Chairman
JUDr. Martin Draslar, Ph.D.,
Vice-Chairman of the Board of Directors
In charge of Legal Issues and Operations

Members:
Ing. Roman Somol, MBA
Leader of the Banking Risk Management

Ing. Miloš Welser
Leader of the Banking Risk Management

Ing. Pavel Kašpar
Director of Banking IS Operations

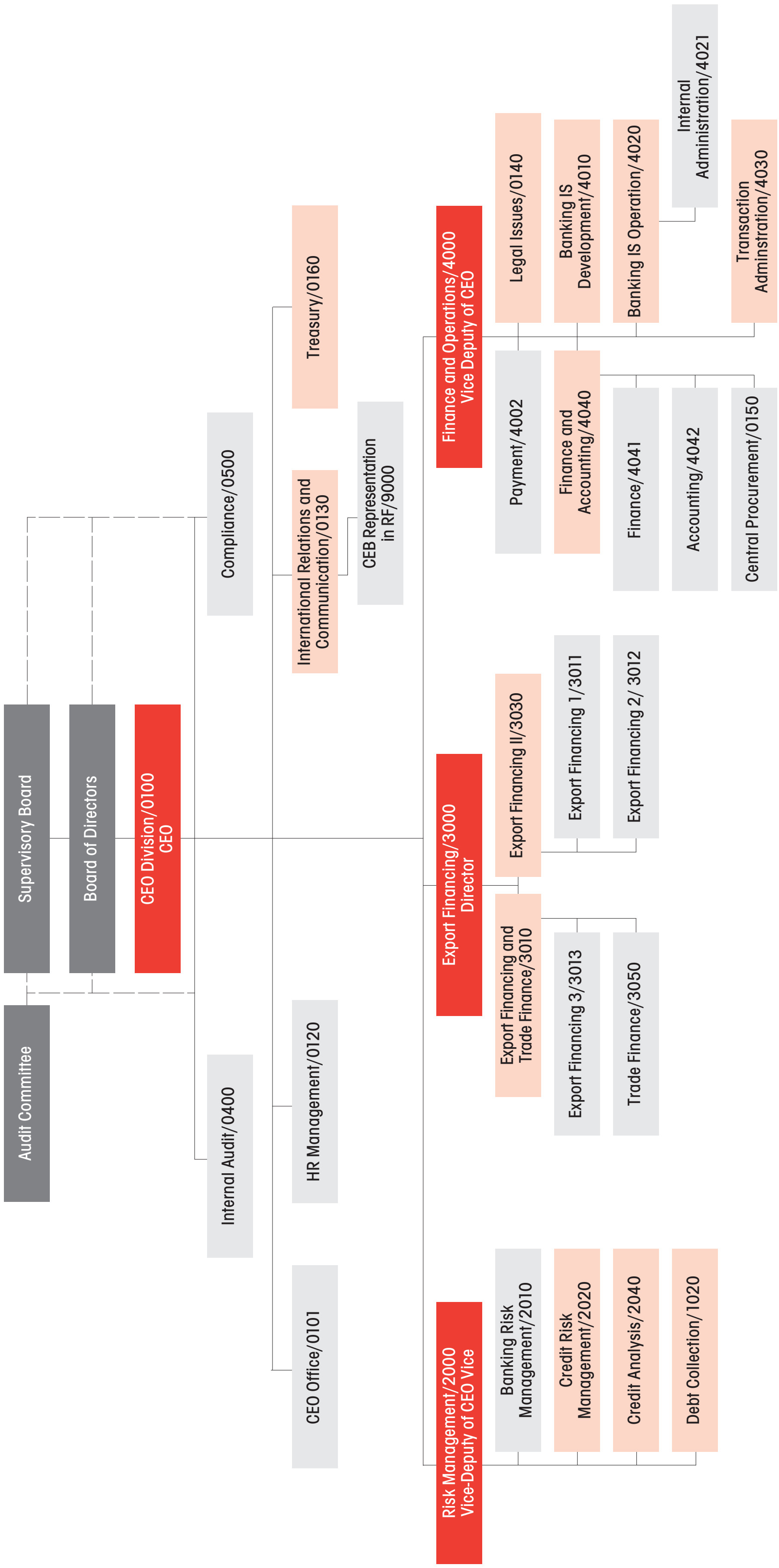
Ing. František Jakub, Ph.D.
Director of Finance and Accounting

Mgr. Ondřej Zemina — Member since 16 April 2018
Leader of Compliance

Ing. Jitka Čermáková — *Member from 1 February 2018 to 15 April 2018*
Leader of Compliance

Ing. Leoš Pěta, MBA, LL.M. — *Member from 1 January 2018 to 31 January 2018*
Person authorised to lead Compliance

1.6. ČEB Organisational Chart



Organisational Structure of Česká exportní banka valid from 1 October 2018

● 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

2 | Report of the Board of Directors on the Bank's Business Activities and Its Assets and Liabilities in 2018

2.1. Overview of the Bank's Business Activity

2.1.1. Export Financing

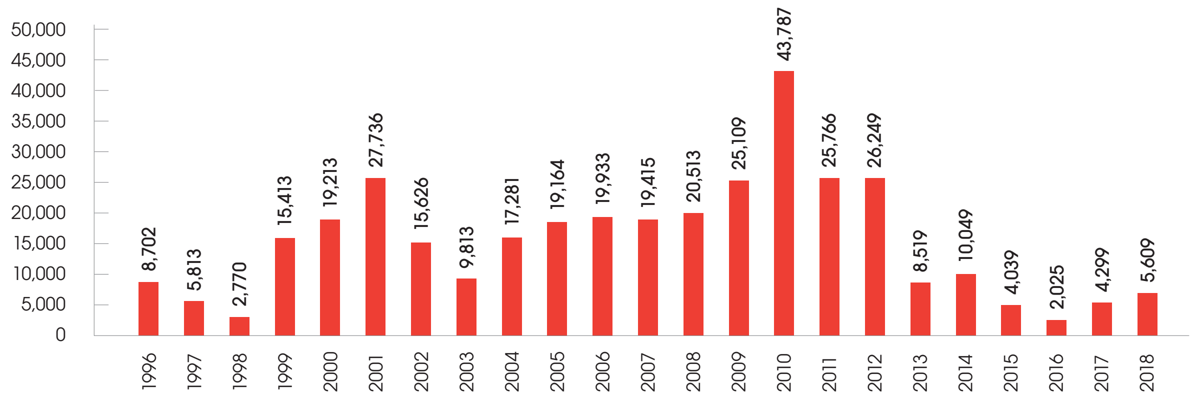
Export financing represents ČEB's key business activity. The year 2018 was successful in terms of both the results of export financing and ČEB's deeper integration in the systematic state support provided to Czech businessmen as part of Team Czechia.

Team Czechia, established in cooperation with the Ministry of Industry and Trade in 2018, consists of seven state institutions (ČEB, Českomoravská záruční a rozvojová banka, a.s., Exportní garanční a pojišťovací společnost, a.s., CzechInvest, CzechTrade, Technology Agency of the Czech Republic and CzechTourism). The major goal of Team Czechia is to simplify access of firms to state support through sharing best practices, creating subsequent product chains or using synergies of shared products and services to promote Czech businessmen.

Team Czechia gives entrepreneurs an opportunity to get better information about the services provided by individual organisations and easier access to the public support and financing. The Team's vision is to simplify the operation of Czech firms thanks to a comprehensive support starting from an idea, through its implementation up to the production and export phase.

After several years of declining demand for state-supported export financing products, 2018 saw further positive development in terms of volume of satisfied demand of Czech exporters and export producers for state-supported export financing products as part of ČEB's market gap, which started in 2017 (refer to Figure 1).

Volume of contracts signed between 1996 and 2018 (CZK mil.) / Figure 1



Source: ČEB

The volume of demand on the part of Czech exporters and producers satisfied by the Bank as measured by the volume of new transactions concluded in 2018 amounted to CZK 5,609.99 million. In terms of the number of transactions, 135 new contracts with exporters and export manufacturers were concluded. Compared to 2017, the 2018 volume of new contracts is substantially positive, with a year-on-year increase of 30.49%. In terms of the number of new contracts, 74.59% of the 2017 performance was achieved. The Bank's transactions comprising insurance from Exportní garanční a pojišťovací společnosti, a.s. (hereinafter "EGAP") represent approximately 90.38% of the volume and 45.93% of the number of newly concluded contracts of ČEB. The Czech crown equivalent of the total volume of drawing from loan contracts and purchased receivables amounted to CZK 4,406.78 million in 2018.

In June 2018, a new strategy for small and medium-sized enterprises (SME) was approved for 2018–2020. Its key aim is to specify the tools effectively satisfying SME's needs as part of ČEB's activities.

Besides the 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.

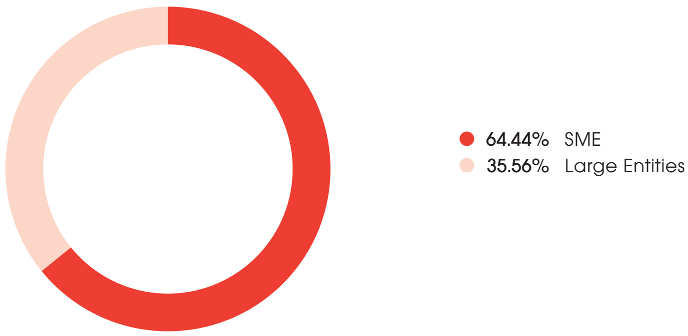
In 2018, ČEB's business activities intensively focused on the priority SME sector in which individual transactions are traditionally concluded at low amounts, which does not critically contribute to meeting the volume indicator but the transactions represent significant benefits for SME's business and penetration to foreign markets.

This corresponds with the fact that 87 new loan and guarantee contracts were signed in 2018 in support of SME exporters and manufacturers in the total volume of about CZK 1,226.49 million.

Compared to 2017, support to Czech SMEs increased by approximately 122.35% in terms of the volume of contracts although 87% of their 2017 number was achieved. Of the 87 transactions for SMEs, transactions comprising EGAP insurance accounted for 25.29% (74.89% in terms of the volume of transactions), while transactions without EGAP insurance accounted for 74.71% (25.1% in terms of the volume of transactions).

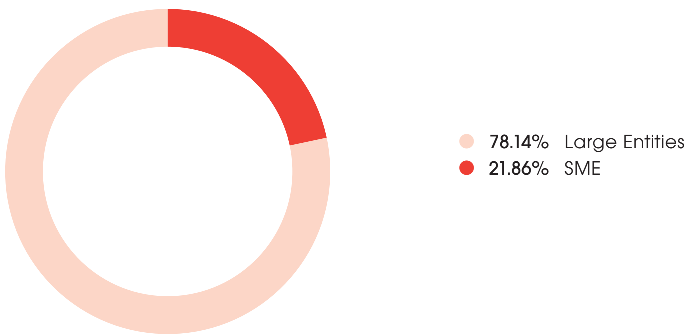
The number of contracts supporting SMEs accounts for 64.44% of the total number of 135 new contracts concluded with exporters and export producers in 2018 (Figure 2) and for 21.86% of their total volume (Figure 3).

Proportion of the number of contracts with SMEs and contracts with large entities concluded in 2018 / Figure 2



Source: ČEB

Proportion of the volume of contracts with SMEs and contracts with large entities concluded in 2018 / Figure 3



Source: ČEB

The remaining 35.56% of the number of contracts signed with the total volume amounting to CZK 4,383.5 million relates to 48 new loan and guarantee transactions concluded to support exporters and export manufacturers in the Mid Cap and Large Entities segments. Of the 48 transactions, transactions comprising EGAP insurance accounted for 83.33% (94.71% in terms of the volume of transactions), while transactions without EGAP insurance accounted for 16.67% (5.29% in terms of the volume of transactions).

The number of contracts supporting the Mid Cap and Large Entities segments accounts for 35.56% of the total number of 135 new contracts concluded with exporters and export producers in 2018 and 78.14% of their total volume.

ČEB's mission principally includes activities related to the financing of Czech export to countries that are subject to the Czech Republic's export interest as part of ČEB's market gap as identified by exporters. This covers financing and guarantees to countries with an increased and a high degree of territorial risk as well as countries with low territorial risk, depending on the demand of Czech exporters with respect to the territorial direction of their export contracts each year.

The Bank's support to Czech exporters in their efforts to achieve territorial diversification of their export activities results in the wide range of target export countries in 2018, specifically 19 territories (Table 1), with Slovakia accounting for approximately 88.4% of the new contract volume in 2018 (the result being influenced namely by 10 direct export consumer loans and additional 15 products, namely guarantees and purchases). The remaining 18 territories account for about 11.6% (with the volume achieved through 110 contracts).

Table 1

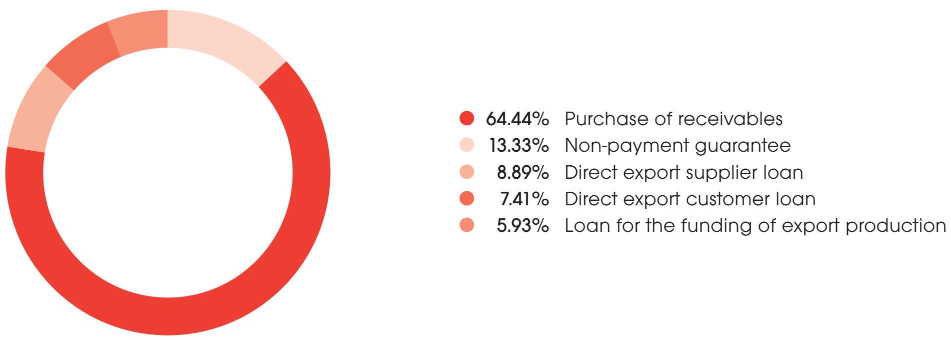
Proportion of target countries of export by the volume of new contracts concluded in 2018

Republic of Bulgaria	0.27%	Kyrgyzstan	0.12%
People's Republic of China	0.17%	Kingdom of the Netherlands	0.07%
Kingdom of Denmark	0.36%	Russia	0.68%
Arab Republic of Egypt	0.01%	Republic of Rwanda	0.03%
French Republic	0.51%	Slovak Republic	88.44%
Georgia	0.22%	United States of America	0.84%
Republic of Chile	0.09%	German Federal Republic	0.03%
Italian Republic	0.50%	Switzerland	0.27%
Canada	0.26%	Ukraine	0.46%
Republic of Cuba	6.65%		

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 (Figure 4), owing to which the dominant product in frequency terms is the purchase of receivables, accounting for 64.44%.

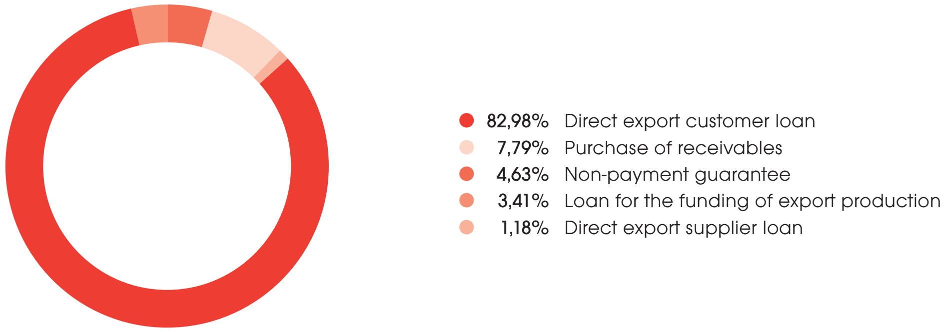
Share of the number of new contracts in 2018 by supported financing products / Figure 4



Source: ČEB

As in previous years, the product dominating the structure of products provided in 2018 in terms of volume was the direct export customer loan (Figure 5), which typically accounts for a substantial volume as part of individual transactions.

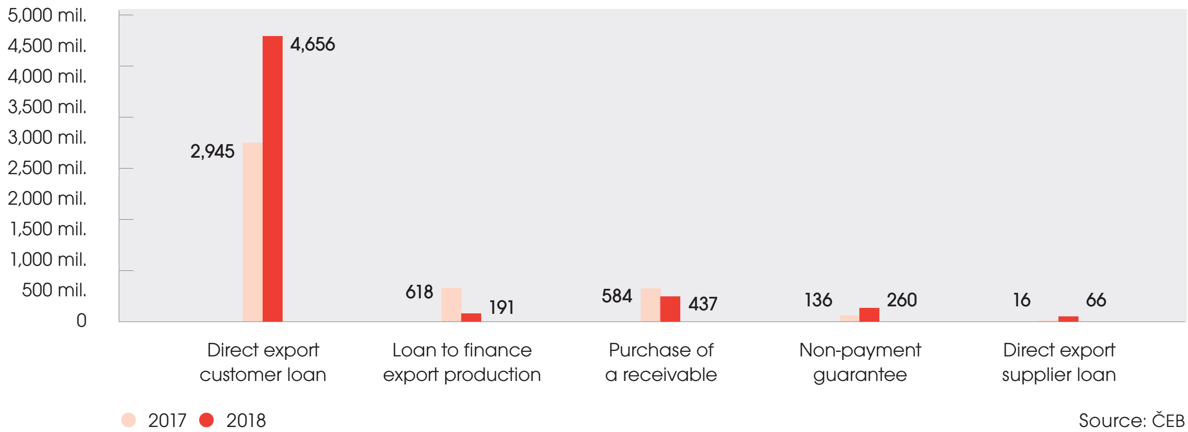
Share of the volume of contracts concluded in 2018 by supported financing products / Figure 5



Source: ČEB

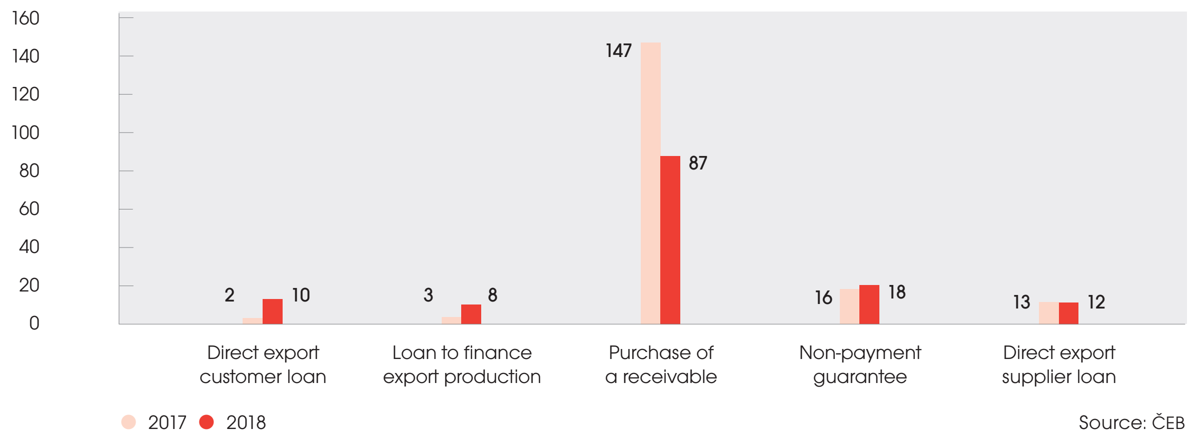
A year-on-year comparison shows a marked increase in the volume (Figure 6) and number (Figure 7) of direct export customer loans, which results, despite their low number in terms of concluded contracts, from the above mentioned significant volumes. The year-on-year comparison also shows a marked correlation between the year-on-year 13% decrease of the number of contracts for the SME segment and the development in the volume of products primarily relating to SME support.

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



Source: ČEB

Year-on-year developments in the number of new contracts by product / Figure 7



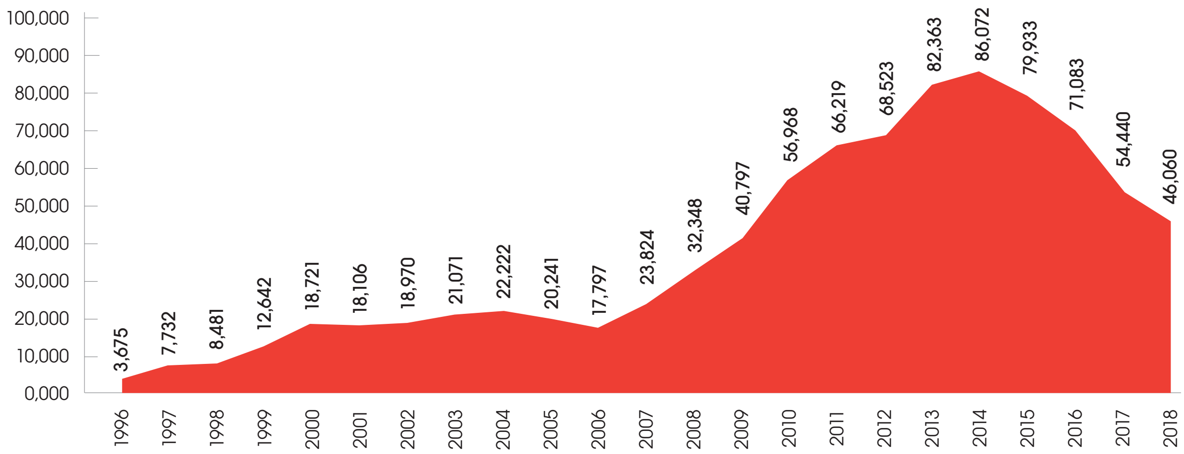
Source: ČEB

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 8,380 million to CZK 46,060 million, ie by 15.4%, as of 31 December 2018 (Figure 8).

As of 31 December 2018, the total principal amount of provided loans and purchased receivables represented 80.18% of total assets.

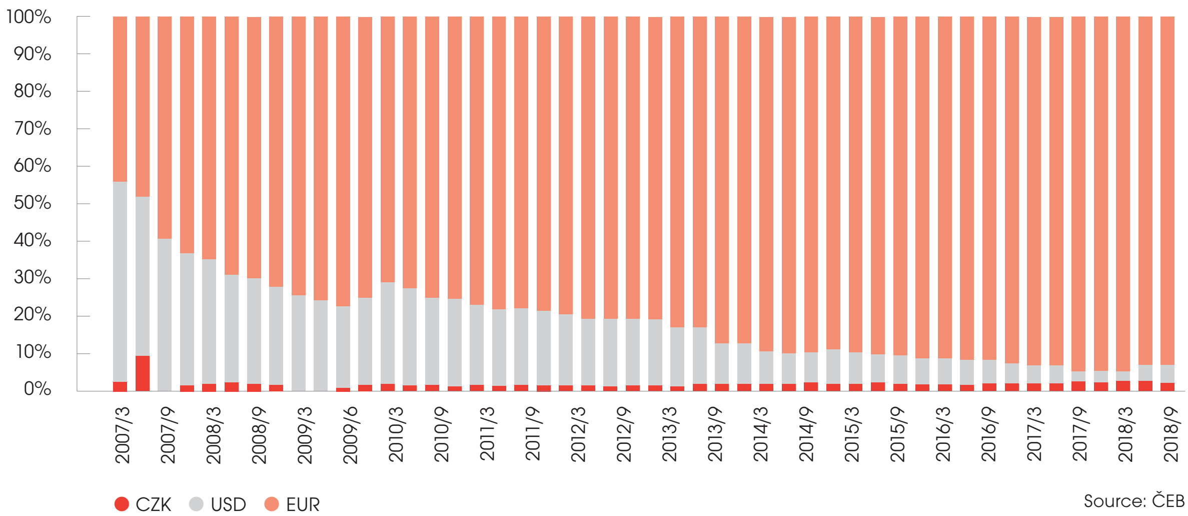
Loan principle balance in 1996–2018 (CZK mil.) / Figure 8



Source: ČEB

In respect of the principal structure of provided loans by contractual currency, loans denominated in EUR represent 92.9% (2017: 94.2%) and the portion of loans provided in USD represent 4.4% (2017: 3.1%) as of 31 December 2018 (Figure 9). The portion of loans provided in CZK recorded a slight year-on-year decrease to 2.6% (2017: 2.7%).

Loan portfolio - structure by currency - proportion development / Figure 9



Source: ČEB

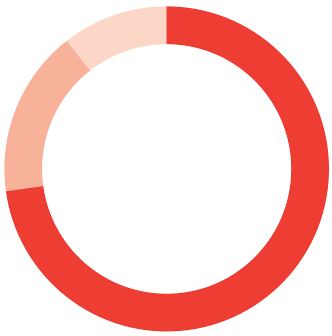
The total principal amount of loans provided in EUR during 2018 decreased year-on-year by approximately EUR 344 million to a total of EUR 1,664 million, i.e. by 17.1%. Apart from continuous payment of loans, the decrease was influenced approximately by 50% by early payments of two loans for foreign investments with the total volume of EUR 172.18 million.

The total principal amount of loans provided in USD during the same period increased by USD 12 million to a total of USD 91 million, ie by 15.2%.

The total principal amount of loans provided in CZK during the same period decreased by CZK 284 million to a total of CZK 1,206 million, ie by 19.1%.

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 length of maturity periods 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 (Figure 10).

Loan portfolio – broken down by contractual maturity as of 31 December 2018 / Figure 10



Source: ČEB

2.1.3. Key Markets on Which the Bank Operates

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

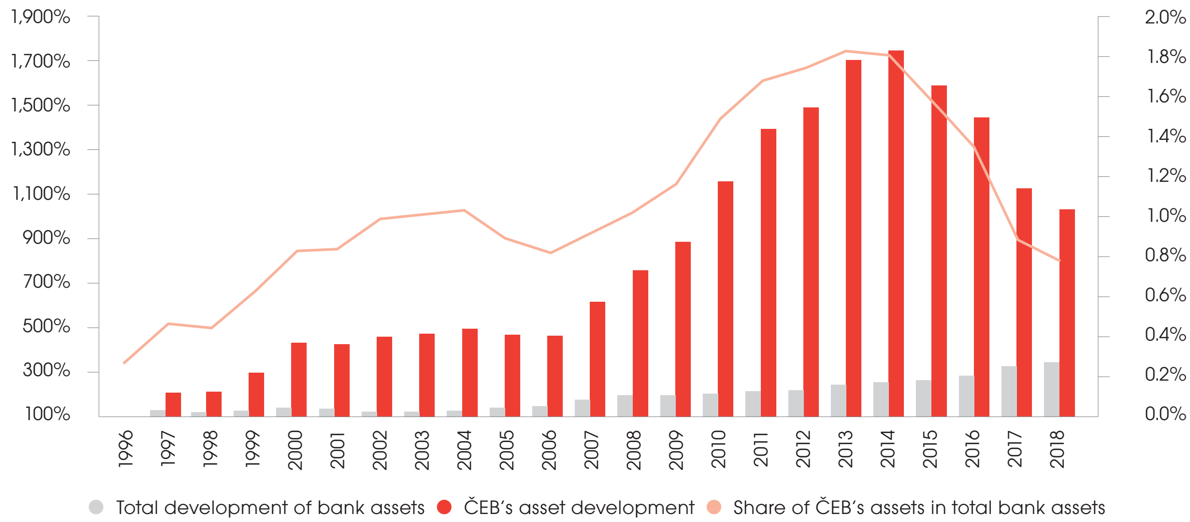
Compared to other banks operating in the Czech banking sector, ČEB is considered a medium-sized bank. ČEB's share of the total balance sheet assets of banks in the Czech Republic decreased year-on-year. During 2018, the share dropped from 0.89% to 0.78%. The decrease is consistent with the Bank's new 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.

Table 2

	2017			**2018**		
	Banks total	ČEB	ČEB share	Banks total	ČEB	ČEB share
Total balance sheet assets (CZK mil.)	7 063 000	62 755	0,89 %	7 331 916	57 446	0,78 %

Source: ČEB and ČNB

Development of ČEB share in the Czech banking sector (assets in 1996 = 100%) / Figure 11



Source: ČEB and ČNB

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 very 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

	2017			2018		
Client loans – maturity (in CZK mil.)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**ČEB share**
Balance of client loans and receivables	3 085,510	54,087	1.8%	3 306,450	45,742	1.4%
Of which in CZK	2 503,441	1,490	0.1%	2 652,676	1,206	0.0%
Of which short-term loans (up to 1 year)	259,953	3	0.0%	247,856	2	0.0%
Medium-term loans (1–5 years)	238,770	594	0.2%	256,908	308	0.1%
Long-term loans (over 5 years)	2 004,718	893	0.0%	2 147,915	896	0.0%
Of which in foreign currency	582,069	52,598	9.0%	653,773	44,536	6.8%
Of which short-term loans (up to 1 year)	104,415	111	0.1%	121,826	55	0.0%
Medium-term loans (1–5 years)	146,989	232	0.2%	170,203	222	0.1%
Long-term loans (over 5 years)	330,665	52,254	15.8%	361,742	44,259	12.2%

Source: ČEB

Table 4

	2017			2018		
Client loans to residents – by purpose (in CZK mil.)	**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)	2 789,516	1,603	0.1%	2 981,259	1,402	0.0%
Of which total other loans	1 112,919	1,603	0.1%	1 188,702	1,402	0.1%
of which investment	699,360	148	0.0%	742,380	152	0.0%
Total current assets, seasonal costs, export, import	276,476	1,450	0.5%	296,179	1,240	0.4%
Total other loans (financial and special purpose)	84,311	2	0.0%	90,665	4	0.0%
Total trade receivables	25,075	3	0.0%	25,804	6	0.0%

Source: ČEB

Table 5

	2017			2018		
Client loans to non-residents – by purpose (in CZK mil.)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**ČEB share**
Client loans to non-residents – by purpose	ČNB ARAD	ČEB reports		ČNB ARAD	ČEB reports	
Balance of non-resident loans and receivables (all currencies)	295,994	52,484	17.1%	325,191	44,340	13.6%
Of which total other loans	259,112	52,484	20.3%	287,736	44,340	15.4%
of which investment	104,597	4,456	4.3%	122,257	11	0.0%
Total current assets, seasonal costs, export, import	89,018	47,947	53.9%	94,602	44,215	46.7%
Total other loans (financial and purpose)	47,536	–	0.0%	47,455	–	0.0%
Total trade receivables	1,090	81	7.4%	2,012	114	5.7%

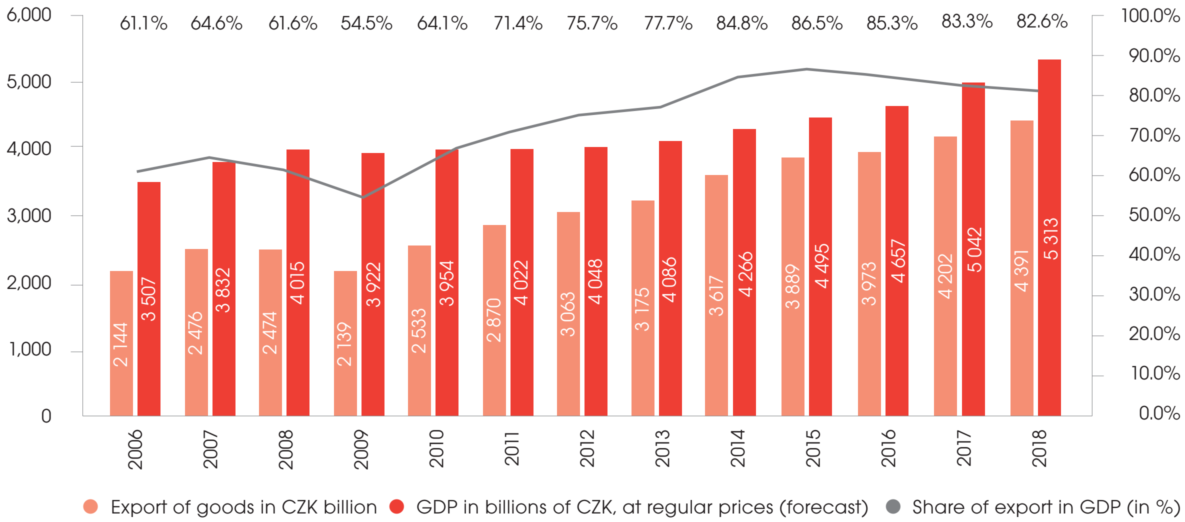
Source: ČEB

b) Breakdown of Czech export and the Bank's state support in 2018 by territory

Gross domestic product and export

The year 2018 saw continuous growth of exports, which has been a very significant component in generating the gross domestic product.

Export – significant component of GDP / Figure 12



Source: ČSÚ, Ministry of Finance

An additional increase in the exports for 2018, as expressed in absolute values, was achieved in all groups of countries included in our statistics, with the exception of "developing economies" and "other advanced market economies", where the export figures remained unchanged or saw a minor decline.

Table 6

	Czech Republic's exports in CZK billion		Share in Republic's exports	
	2017	2018	2017	2018
Neighbouring countries	2 145	2 215	51.0%	50.5%
EU 15 countries	2 674	2 806	63.6%	63.9%
EU 28 countries	3 517	3 692	83.7%	84.1%
CIS countries	127	143	3.0%	3.3%
European transitory economies	24	26	0.6%	0.6%
Developing economies	174	170	4.1%	3.9%
Other advanced market economies	215	215	5.1%	4.9%

Source: ČSÚ

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 only minimal year-on-year changes occurred. Slovakia, Indonesia, Azerbaijan and the Russian Federation are the countries that constitute nearly a 90% share of the total drawing of all loans provided by ČEB. The share of these countries in the Czech Republic's total exports was nearly 10%.

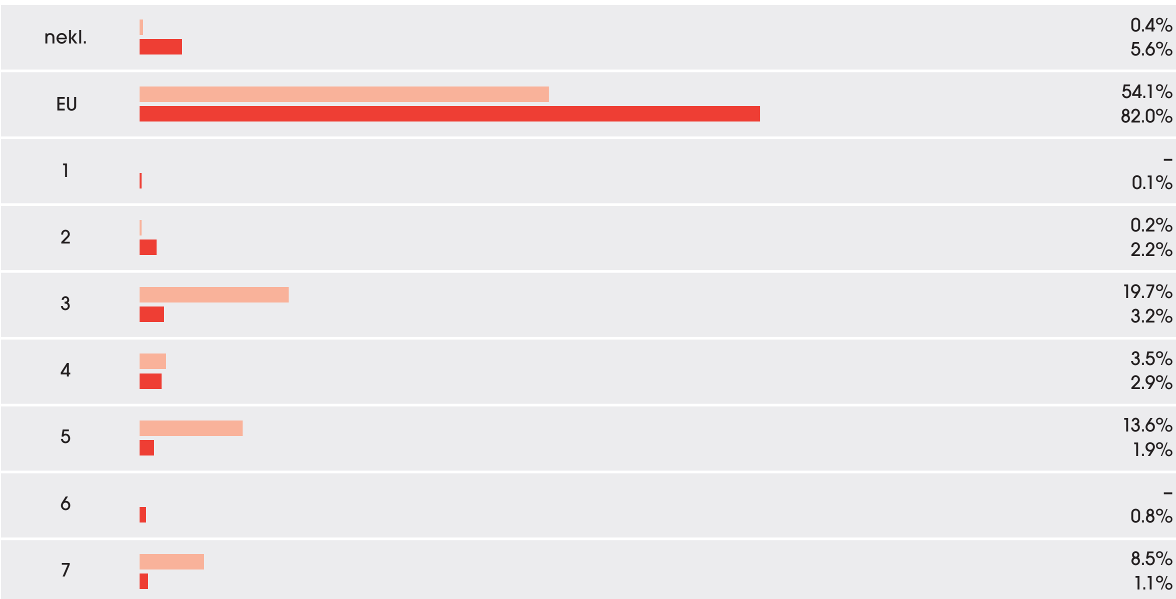
Table 7

Countries with a share in the Czech Republic's exports over 1% in 2018	Czech Republic's exports in 2017 in %	Czech Republic's exports in 2018 in %	Year-on-year changes in the share in the Czech Republic's exports 2018
Germany	32.8%	32.4%	-0.4%
Slovakia	7.7%	7.6%	-0.1%
Poland	6.0%	6.0%	0.0%
United Kingdom	5.0%	4.7%	-0.3%
France	5.1%	5.1%	0.0%
Austria	4.4%	4.5%	0.1%
Italy	4.1%	3.9%	-0.2%
Russian Federation	2.0%	2.0%	0.0%
Hungary	2.9%	3.0%	0.1%
Netherlands	2.9%	3.7%	0.8%
Belgium	2.3%	2.1%	-0.2%
Spain	2.9%	3.0%	0.1%
USA	2.1%	2.1%	-0.1%
Switzerland	1.4%	1.4%	0.0%
Sweden	1.6%	1.7%	0.1%
Romania	1.4%	1.5%	0.1%
Turkey	1.3%	1.1%	-0.2%
China	1.3%	1.3%	0.0%

Source: ČSÚ

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 2018 by Country Risk Classification (OECD Classification as of 31 December 2018) / Figure 13



Risk rate by OECD (1 – lowest risk, 7 – greatest risk) CR's export ČEB loan drawing

Source: ČEB, ČSÚ and OECD

Situation on Financial Markets – Opportunities to Obtain Funding

To raise funds, 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 38.6 billion (EUR 1.5 billion) was drawn under the EMTN Programme as of 31 December 2018. 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 2018 is disclosed in the notes to the financial statements. Owing to low borrowing needs in 2018, 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 2016. 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 2018, two 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 2018, 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 payable	A1
Short-term payables	A-1+	Short-term payables	P-1
Outlook	stable	Outlook	positive

Source: ČEB

2.1.4. Newly-Implemented Products and Activities

In 2018, 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.

Major adjustments to the products provided in 2018 included namely fine-tuning of the funding principles for the introduction of new research and development results in production and for agricultural products in compliance with the Appendix to the Agreement on Agriculture of the Ministerial Decision of the World Trade Organisation (WTO).

Following the comprehensive review of its product portfolio, the Bank was an active partner of the Ministry of Industry and Trade and the Ministry of Finance in 2018 in discussions relating to the amendment of Act 58/1995 Coll. This effort is aimed at continuous enhancing the product offering for Czech exporters to the level provided to national exporters as part of product offerings of advanced Export Credit Agencies (ECA) and increasing the abiliy to respond flexibly on developing needs of Czech exporters and export suppliers in export financing, thus improving their competitiveness on the global market. Specifically, the following areas are covered

- Re-financing and direct financing of investments in increasing export capacities;
- Expanding product offerings in foreign market prospects;
- Supporting Czech exporters and export suppliers acting as nominated sub-suppliers under foreign contracts;
- Expanding the spectrum of financial services provided to exporters and export suppliers; and
- Financing research and introducing new results of research and development in production.

2.1.5. Financial Results, Assets and Liabilities

Balance of Assets and Liabilities

ČEB's total assets amounted to CZK 57,446 million in 2018, which represents a year-on-year decrease of 8.5%. 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 87.7% of the total volume of its funds. The key source of funding comprised the issuance of bonds denominated in foreign currencies and in Czech crowns. As of 31 December 2018, the bonds amounted to CZK 39,130 million, which covers 96.8% of the Bank's borrowing needs.

In 2018, the Bank continued to use its ECP Programme for the issuance of securities with maturity under a year. The Bank increases its funding base by loans received from credit institutions and interbank deposits. As of 31 December 2018, the funds raised from those sources amounted to CZK 5,915 million in total. Deposits received from clients amounted to approximately CZK 965 million and played a secondary role.

The Bank reported equity in the total volume of CZK 7,068 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.

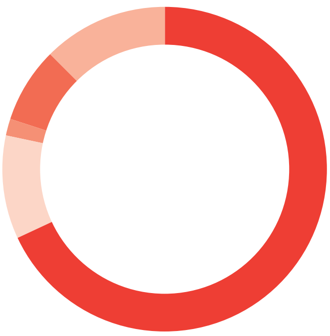
tabulka č. 9

Liabilities In CZK million	Balance at 31 Dec 2017	Balance at 31 Dec 2018	Year-on-year index
	Column 1	Column 2	Col. 2/ Col 1*100
Financial liabilities held for trading	64	120	187.50
Financial liabilities at amortised cost	55,312	46,010	83.18
Of which: payables to financial institutions	*1,936*	*5,915*	305.53
Payables to clients	*1,462*	*965*	66.01
Payables from issued debt securities	*51,914*	*39,130*	75.37
Hedging derivatives with negative fair value	313	111	35.46
Other liabilities	161	4,021	2,497.52
Reserves for liabilitie	191	116	60.73
Current income tax liabilities	–	–	–
Total liabilities	**56,041**	**50,378**	**89.89**
Share capital	5,000	5,000	100.00
Revaluation gains and losses	(137)	(8)	5.84
Reserve funds	760	773	101.71
Other special funds from profit	834	1,078	129.26
Retained earnings	257	225	87.55
Total equity	**6,714**	**7,068**	**105.27**
Total equity and liabilities	**62,755**	**57,446**	**91.54**

Source: ČEB

Note: *in order to achieve consistency of data in 2017 and 2018, individual items of assets and liabilities were reported under IFRS 9.

Structure of liabilities in 2018 / Figure 14

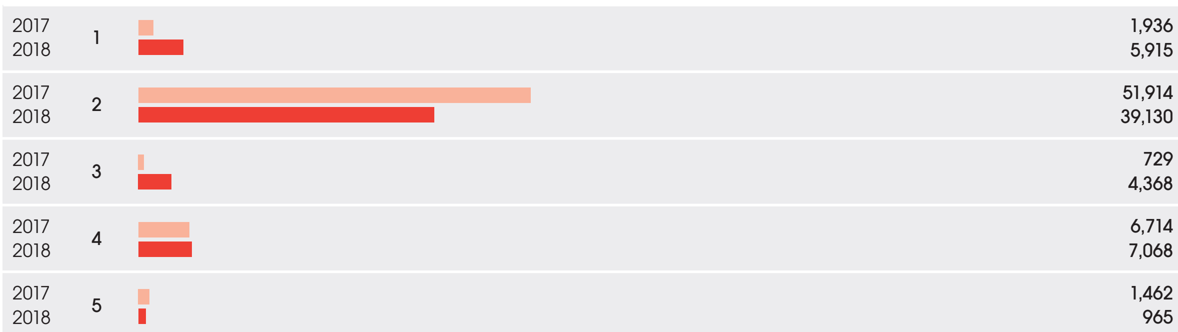


- 68.1% bond issue
- 12.3% equity
- 10.3% loans received and interbank deposits
- 7.6% other liabilities
- 1.7% deposits received from client

Source: ČEB

Development in Main Categories of Liabilities in 2017–2018 / Figure 15

CZK million



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

Source: ČEB

Use of funds

The major portion of assets includes receivables arising from loans. Their share in the total volume of assets is around 70.4%. The value of all receivables in the loan portfolio reported in the balance sheet decreased year-on-year by 7.3% to CZK 52,090 million. Receivables from loans provided to non-banking clients decreased by CZK 8,245 million, receivables from loans provided to financial institutions increased by CZK 59 million.

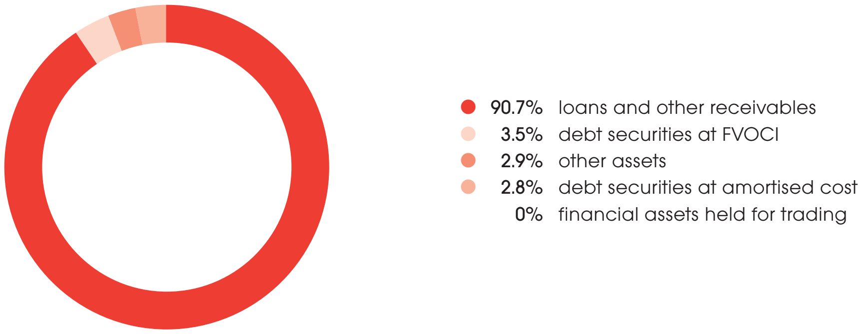
Temporarily available funds denominated in foreign currencies that are not used for loans are placed on the interbank market in the form of short-term deposits, a portion of which is used for funding the liquid reserve held consisting of foreign securities. In line with the Bank's strategy, funds from 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 3,699 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

(CZK million)	Note	2018	1 Jan 2018	2017
Assets				
Cash and deposits with the central banks and other deposits due on demand	13	60	*416*	n/a
Cash and deposits with the central bank	13	n/a	*n/a*	3,719
Financial assets available for sale	16	n/a	*n/a*	2,255
Financial investments held to maturity	16	n/a	*n/a*	1,145
Debt securities at FVOCI	16	2,033	*2,136*	n/a
Financial assets at amortised cost	3b, 14, 16	53,726	*57,310*	n/a
Debt securities at amortised cost	16	1,636	*1,268*	n/a
Loans and receivables at amortised co	3b, 14	52,090	*56,042*	n/a
Loans and other receivables	14	n/a	*n/a*	52,858
Hedging derivatives	15	3	*2*	2
Tangible assets	17	28	*23*	23
Intangible assets	18	54	*54*	54
Other assets	19	1,367	*1,713*	1,713
Current tax receivable		154	*935*	935
Deferred tax asset		21	*51*	51
TOTAL ASSETS		**57,446**	***62,640***	**62,755**
LIABILITIES AND EQUITY				
Derivatives held for trading	15	120	*64*	64
Financial liabilities at amortised cost	20	46,010	*55,312*	55,312
Hedging derivatives	15	111	*313*	313
Other liabilities	21	4,021	*161*	161
Reserves		116	*199*	191
Total liabilities		**50,378**	***56,049***	**56,041**
Equity	24	5,000	*5,000*	5,000
Revaluation gains and losses	25	(8)	*(133)*	(137)
Reserve funds	26	773	*760*	760
Other special funds from profit	26	1,078	*834*	834
Retained earnings brought forward (IFRS 9 implementation)		(127)	*(127)*	–
Profit or loss for the current period		352	*257*	257
Total equity		**7,068**	***6,591***	**6,714**
TOTAL LIABILITIES AND EQUITY		**57,446**	***62,640***	**62,755**

Source: ČEB

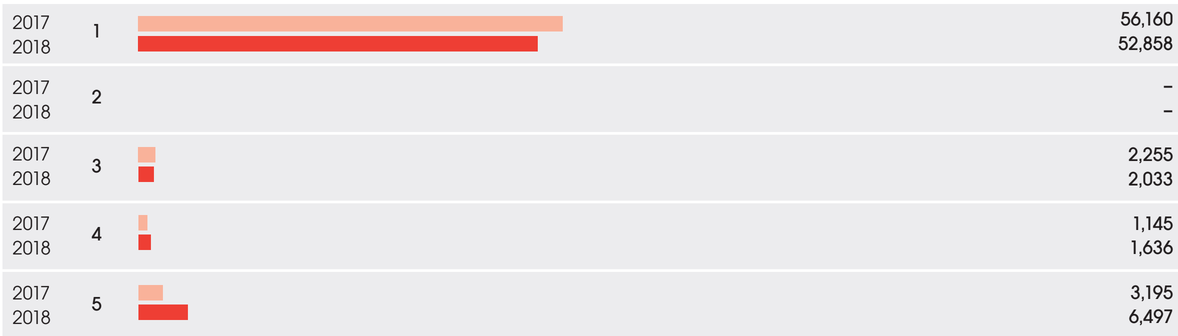
Structure of Assets in 2018 / Figure 16



Source: ČEB

Development in Main Categories of Assets in 2017–2018 / Figure 17

CZK million



1 Loans and other receivables
2 Financial assets held for trading
3 Financial assets available for sale
4 Financial assets held to maturity
5 Other assetsng

Source: ČEB

Generation of Profit

In 2018, ČEB generated a gross profit of CZK 223 million. After adding the income tax overpayment of CZK 129 million, the Bank reported a profit after tax of CZK 352 million.

In the course of its business activities in 2018, the Bank reported interest income in the aggregate amount of CZK 2,091 million, i.e. a year-on-year increase of 1.9%. The predominant portion of interest income (91%) represents interest on loans and other receivables, specifically on loans provided to non-banking clients, which amounted to CZK 1,870 million. The Bank raises the funds necessary for its business activities from capital markets. In 2018, interest expenses associated with such funds amounted to CZK 1,112 million, which is a year-on-year decrease of 20.5%. The year-on-year decrease in funding expenses is predominantly attributable to decreased funding needs and the settlement of bonds of EUR 150 million, USD 60 million and CZK 7.545 billion. Interest expenses on issued bonds in the amount of CZK 872 million represent the largest portion of the funding expenses. Net interest income for 2018 amounted to CZK 969 million, which is a year-on-year increase of 51%.

The risk of interest rate fluctuation with regard to the funds raised on capital markets is hedged by interest-rate derivatives. In 2018, a temporary loss of CZK 124 million was incurred on account of these derivatives in respect of the level of interest rates.

Net income from fees and commissions amounts to CZK 8 million. Other significant components of the financial result include a loss from financial transactions of CZK 74 million and other operating income of CZK 8 million in 2018.

For its operations, the Bank incurred expenses in the amount of CZK 402 million, including administrative expenses of CZK 308 million, depreciation of tangible and intangible assets in the amount of CZK 47 million and other operating expenses in the amount of CZK 47 million.

The costs of provisioning amounted to CZK 286 million. The increased provisioning is attributable predominantly to a change in the methodology resulting from the transition to IFRS 9 and the increased need for creating provisions against receivables in STAGE III.

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 2018, ČEB did not assert its claim to the subsidy; contrarily, it generated a profit from this activity of CZK 71.8 million, which is part of the Bank's total profit for 2018 before tax.

Table 11

Profit/loss in CZK million	Balance at 31 Dec 2017	Balance at 31 Dec 2018	Year-on-year index
	Column 1	Column 2	sl. 2 / sl. 1*100
Net interest income	641	969	151.17
Net fee and commission income	11	8	72.73
Operating income	68	(66)	(97.06)
Of which: state subsidies	–	–	–
Operating expenses	(411)	(402)	97.79
Loan and guarantee impairment losses	(50)	(286)	572.00
Profit before tax	259	223	86.10
Income tax	(2)	129	(6,450.00)
Net profit for the period	**257**	**352**	**137.01**

Source: ČEB

2.2. Factors Having an Impact on ČEB's Business and Financial Position in 2019

The Bank's activities in 2019 and its business and financial position will be affected by the below factors:

- The Czech Republic is expected to follow a positive trajectory of GDP growth, however, its anticipated dynamics will be lower. The unemployment rate will continue to be very low. The ongoing lack of workforce in certain economic sectors makes pressure on the capability of Czech firms, including those concentrated on exports, to fully use their production capacities and on salary growth.
- The currency policy of the Czech National Bank involving a further increase of interest rates produces higher interest income for financial institutions on one hand and increases debts of firms with funding denominated in Czech crowns on the other hand.
- The policy of the European Central Bank regarding the termination of quantitative easing with a possible growth of interest rates will have an impact on the cost of ČEB's funds that are denominated predominantly in EUR and, consequently, the cost of provided loans.
- Policies of central banks, namely CNB, ECB and FED, or the CZK exchange rate with respect to major currencies, determine the size of the crown equivalent of the Bank's total assets that are practically exclusively denominated in foreign currencies. ČEB's financial and business plan for 2019 is based on a gradual strengthening of the Czech crown with respect to both key currencies, EUR and USD.
- A higher degree of protectionism in the global business in any territory has negative effects on small or medium-sized export-oriented economies, including the Czech Republic.
- In line with ČEB's strategic territorial focus, the Bank's structure of credit exposures does not fully match with the long-term structure of the Czech export in terms of the share of individual export target countries. However, the political and economic development in countries that have traditionally been major export partners of the

Czech Republic (EU countries, namely Germany, prevail) has an impact on the volume of exports and performance of Czech firms.

- In terms of business, or impacts on the Czech export, the approach to Brexit will be significant as Great Britain is among the five most important export partners of the Czech Republic.
- The level of possible slow-down of the Chinese economy may slacken the efforts to increase the Czech export to this territory.
- Commodity prices on global markets and monetary developments may influence performance of certain countries, and secondarily debtors of these countries.
- In May, elections to the European Parliament will be held in the European Union and it is obvious that their result has a significant potential to influence further direction of the EU as a whole.
- As part of the preparation of an amendment to Act 58/1995 Coll., on Insuring and Financing Exports with State Support, discussions will be held on completing the product base for state-supported financing provided by ČEB in order to achieve continuous improvement of the product offering of advanced Export Credit Agencies (ECA) with the aim to increase the ability to respond flexibly to the developing needs of Czech exporters and strengthen their competitiveness on the international market.
- The resolution of one of ČEB's largest exposures – the Adularya business case in Turkey.

Goals for 2019 in the business and financial area are as follows:

- Implement the export strategy of the Czech Republic for 2012-2020, the Bank's updated strategy and financial management strategy.
- The Bank's key goal for 2019 is again supporting Czech exporters and export suppliers to preserve their competitiveness on foreign markets in terms of conditions to finance supplies. Althoug the priority is not generating a high profit, ČEB assumes to achieve profit in 2019.
- In order to cover the market gap, the Bank's business activity will focus on sectors and territories where Czech exporters have for various reasons no or only a limited offer of products from commercial banking entities. The territories may have a higher risk profile rated by OECD, however, the risk rate of individual business cases will be analysed very carefully.
- Maximise support for Czech exporters and export suppliers while promoting the export engagement of the Czech Republic in territories outside of Europe with the aim to continuously expand export markets to include namely the countries in Africa, Latin America and South-East Asia and gradually eliminate the current concentration risks.
- Diversify client portfolio with a focus on entities to which ČEB has not provided its financial services through its products or it did so in a distant past period.
- Pay continuous attention to supporting small and medium-sized enterprises.
- Stabilise the size of the balance sheet (total asset) sum so that the Bank may continue to finance its operating needs, generating a profit.
- Further optimise the cost structure in these operating areas where possible and effective.
- With respect to the state budget, minimise grant needs to settle loan losses on provided supported financing and maximise the yield of risk receivables from 2007-2011.

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 builds 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 responsible for 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 Bank's Board of Directors, 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 duty 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 2018 was sufficient to cover the risks to which the Bank is exposed.

The Bank makes use of the Internal Liquidity Adequacy Assessment Process (ILAAP) system. 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 2018, the Bank did not exceed the limit for large exposures. As of 31 December 2018, the Bank did not exceed any regulatory limit.

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

3.1.1. Credit Risk

Credit risk, i.e. the risk of 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 stress scenarios;
  - Maintaining the liquidity coverage ratio;
  - Measuring the net stable funding ratio; and
  - Gap analyses that measure the maximum cumulated outflow of cash and limits in individual currencies and time gaps;

ČEB maintains a sufficient liquid reserve predominantly in the form of highly-liquid securities. To deal with liquidity problems under extraordinary circumstances, ČEB has emergency plans in place. In 2018, 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 2018, ČEB updated its assessment of operational risks on an on-going basis 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 2018.

3.1.6. Capital Requirements and Capital Ratios

Unaudited Information/Table 12

31 December 2018	CZK mil.
Capital	**6,693**
Tier 1 (T1) capital	6,693
Common equity tier 1 (CET1) capital	6,693
CET1 instruments	5,000
Cumulated other comprehensive income (OCI) and other provisions	1,841
Adjustments of the CET1 capital due to the utilisation of prudential filters	33
(-) Other intangible assets	(340)
Other temporary adjustments of the CET1 capital	286
Other deductions from the CET1 capital – methodology changes (transition to IFRS 9)	(127)

Table 13

31 December 2018		CZK mil.
	Risk exposure	**Capital requirement**
TOTAL	**7,499**	**600**
Total risk-weighted exposures in respect of credit risk under STA	5,521	442
Exposures in respect of central governments and central banks	436	35
Exposures in respect of institutions	1,592	128
Exposures in respect of enterprises	2,963	237
Default exposures	377	30
Other exposures	153	12
Total risk exposures in respect of position, foreign currency and commodity risks – currency transactions	207	17
Total risk exposures in respect of operational risk – BIA approach	1,678	134
Risk exposures in respect of credit risk adjustments to measurement		
Total – standardised method	93	7

Table 14

31 December 2018	CZK mil.
Capital ratios	
Capital ratio CET1	89.24
Surplus (+) / shortage (-) of the CET1 capital	6 355
Capital ratio T1	89.24
Surplus (+) / shortage (-) of the T1 capital	6 243
Total capital ratio	**89.24**
Total capital surplus (+) / shortage (-)	**6 093**
Total capital ratio SREP (TSCR)	*11.900*
TSCR – comprising CET1 capital	*7.425*
TSCR – comprising T1 capital	*9.900*
Overall capital requirement (OCR)	*14.994*
OCR – comprising CET1 capital	*10.519*
OCR – comprising T1 capital	*12.994*
Overall capital requirement (OCR) and the recommended capital planning reserve (P2G)	*14.994*
OCR and P2G – comprising CET1 capital	*10.519*
OCR and P2G – comprising T1 capital	*12.994*

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 2018, 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 CEOs.

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") is concluded 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, or 62.5% and 37.5%, respectively, for a member of the Board of Directors in charge of the Risk Management Division. 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 ČEB's Supervisory Board. The performance criteria include business indicators (for 2018: total volume of new transactions, number of new SME transactions, volume of loans drawn), indicators for the management and control system (for 2018: meeting the approved remedial measures of the type A and type B internal audit within the defined deadline) and portfolio and risk indicators (for 2018: 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.

Furthermore, 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 whereby 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 4-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.

As of 1 August 2018, the number of the Supervisory Board's members was reduced from seven to five. Members of the Supervisory Board are elected by the General Meeting and include persons proposed by 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 2018 is broken down into the base component and the variable component, which make up 80% and 20%, 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, is 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 always set for a calendar year and approved and subsequently assessed by ČEB's General Meeting. The performance criteria are divided into three areas: finance and business plan (for 2018: active cooperation on preparing and negotiating the FBP for 2019), remuneration system (for 2018: active participation in approving the K.O. criteria, bank-wide KPIs as well as individual KPI Risk takers of group I and II in line with the Supervisory Board's schedule) and control system (for 2018: checking the fulfilment of tasks of the Board of Directors and Supervisory Board members set by the Supervisory Board, checking the fulfilment of the Czech National Bank's remedial measures. 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 4-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 2018

Table 15

Received income of persons with managing powers from the issuer (ČEB) (CZK '000)	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 as ČEB cannot affect the decisions of the Company's General Meeting.

Since 1 August 2018, the members of the Board of Directors have been appointed and recalled by the General Meeting (until 31 July 2018: by the Supervisory Board) whereby the Czech National Bank also provides its opinion on the nominee. No discrimination of candidates occurs during the selection process. The selection is primarily based on assessing 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 is the selective parameter for appointing a suitable candidate as a member of the Board of Directors

3.5. Information Regarding Codes

The Corporate Governance Code of Česká exportní banka, a.s. (KOD 01) (hereinafter the "Code") is based on the OECD principles. Deviations from the Code's principles are disclosed 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 build on the OECD general principles of corporate governance whereby neither the Bank's legal position nor the shareholder structure are modified by the main principles. The Bank's governance is based on the main pillars listed below:

Shareholder Rights

The Bank's majority shareholder is the Czech state, which exercises its shareholder rights through the Ministry of Finance. The state exercises its shareholder rights at the Bank's General Meeting both directly, by applying the proportion of votes corresponding to the shares held by the Ministry of Finance, 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 only transferrable on condition that statutory requirements as reflected in the Articles of Association have been met.

Fair Treatment of Shareholders

The Bank honours the rule of the equal treatment of shareholders of the same class, pursuant to Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Business Corporations Act). The Bank is aware of the risk of potential misuse of the information on its activities, particularly information on the transactions being prepared, both by its employees and members of the Board of Directors and the Supervisory Board. The Bank has issued, and permanently monitors adherence to, the Employee Code of Ethics (KOD 02), which is available at ČEB's website: https://www.ceb.cz/_sys_/FileStorage/download/3/2171/cz_kodex-spravy-a-_izeni-_eb.pdf.

The Bank considers it crucial that the entire decision-making be not influenced by the potential interests of persons with the decision-making powers who are engaged in the decision-making process, i.e. Board of Directors or 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.

Disclosures and Transparency

The Bank meets the statutory reporting duty, under which primary emphasis is placed upon a timely, accessible, sufficient and balanced disclosures concerning the Bank's current activities as well as anticipated development.

The information is rendered to the business community, public administration bodies, employees and other stakeholders. Providing the aforementioned information on a regular basis is considered by the Bank to be an efficient instrument not only for meeting its statutory obligations but mainly for establishing a good reputation. With respect to information disclosures, the Bank strictly adheres to the relevant statutory provisions concerning the bank and business secrets.

Liability of the Board of Directors and the Supervisory Board

The exact definition of the powers of the Board of Directors and the Supervisory Board is part of the Bank's Articles of Association, which are available in the Collection of Deeds of the Commercial Register held by the Municipal Court in Prague. The Board of Directors' composition, manner of decision-making and powers are provided for by the Bank's Articles of Association. The Bank's Board of Directors has the responsibility towards the shareholders for:

a) The strategic management of the Bank reflected in the security, business and HR 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) Statutory compliance of the management and control system and for providing related activities with due professional care; and
d) Establishing principles of human resources management including the necessary qualification, experience and knowledge for individual positions and the manner in which they are to be demonstrated and verified.

The Supervisory Board's composition, manner of decision-making and powers are provided for by the Bank's Articles of Association. The Supervisory Board oversees the exercise of the Board of Directors' powers as well as realisation of the Bank's business activities. In particular, the Supervisory Board:
a) Supervises as to whether the management and control system is functional and efficient and performs the system's regular assessment;
b) Regularly debates the strategic direction of the Bank as well as matters concerning the regulation of the risks to which the Bank is or may be exposed;
c) Participates in directing, planning and assessing the internal audit activities and assesses compliance; and
d) Approves and regularly assesses the summary remuneration principles for selected groups of employees whose activities significantly affect the Bank's overall risk profile.

Pursuant to Act No. 93/2009, on Auditors, the Bank has established the Audit Committee whose position and powers are provided for by the Bank's Articles of Association.

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 end of the reporting period, and has a quorum if the shareholders present hold shares in the total nominal value greater than 50% of the Bank's share capital. 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 of the present shareholders, 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 present shareholders. 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 exercises its shareholder's rights by means of the Ministry of Finance.

3.6.2. Supervisory Board

The Supervisory Board consists of five 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 three 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 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. A resolution per rollam is adopted if at least three (3) members of the Supervisory Board agree with adopting the resolution and if at least four 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 three members.

Meetings of the Board of Directors are convened by its Chairman or an authorised Vice-Chairman as necessary. The Board of Directors has a quorum, if an absolute majority of its members is present. 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. A resolution per rollam is adopted if at least two members of the Board of Directors agree with adopting the resolution and if at least two 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 three 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 all 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 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.

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 two are members of the Board of Directors and two are members of the Risk Management Section. A resolution is adopted if approved by the votes of an absolute majority of the members present, provided that the proposal was voted for by two members of the Board of Directors and two members of the Risk Management Section. Each member has one vote. The Credit Committee arrives at conclusions by the voting of its members in respect of individual items on the agenda.

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 two members of the Board of Directors and two members of 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 and, simultaneously, at least one representative of the CEO's Section, one representative of the Finance and Operations Section and one member of the Risk Management Section are present. 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 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 who is a member of the ALCO 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 an absolute majority of all ALCO members. 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 who is a member of the ALCO 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. 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 the event of a tied vote, the Chairman has the casting vote. 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.

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 counter-proposals are voted on in the order as submitted. A resolution is adopted if approved by an absolute majority of votes of the ORCO members present and if at least one ORCO member for the Risk Management Section 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 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:

Italská 2581/67
120 00 Prague 2 – Vinohrady
Czech Republic

The contract was signed for the period from 2017 to 2020. In 2018, 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	2018	2017
Statutory audit of the annual financial statements	1,500	1,680
Other assurance services	120	80
Other non-audit services	–	–
Total	1,620	1,760

Source: ČEB

In 2017, Deloitte Advisory, s.r.o. provided the Bank with training services in the amount of CZK 5 thousand.

3.8. Court and Arbitration Proceedings

Overview of significant court and arbitration proceedings in which ČEB acts – as of 31 December 2018:

ČEB as a plaintiff:

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

- The individual insolvency-related disputes concerning the denial of ČEB's receivables/collateral, with the maximum impact in the aggregate amount of EUR 15 million; and
- 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; and
- At a hearing on 12 February 2019, the appellate court confirmed the decision of the first-instance court which dismissed the case in full scope.

ČEB as a defendant:

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

- The individual proceedings are still ongoing, maximum impact in the aggregate 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; and
- First-instance proceedings are still ongoing.

ČEB's other disputes involve relatively insignificant financial amounts or the dispute proceedings are held on behalf of ČEB but on account 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 acts as a defendant, ČEB believes that its failure in these disputes is rather unlikely and no provisions have therefore been recognised.

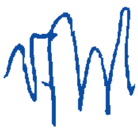
3.9. Contracts of Significance

During the course of 2018, the Bank concluded no significant contracts (except for the contracts concluded as part of the issuer's regular business activities) that could establish any liability or claim which would be significant with regard to the issuer's ability to meet its obligations towards securities holders 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 29 March 2019



Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors
and CEO

Judr. Martin Draslar, Ph.D.
Vice-Chairman of the Board of Directors
and Deputy CEO

Financial Part

4

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 2018

CONTENTS OF THE FINANCIAL STATEMENTS

INCOME STATEMENT

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2018	2017
Interest income		2 091	2 053
Interest expense		(1,122)	(1,412)
Net interest income	**6**	**969**	**641**
Net fee and commission income	**7**	**8**	**11**
Net profit (loss) from financial operations, including state subsidy	8	(74)	68
Other operating earnings		8	–
Other operating expenses	9	(47)	(66)
Profit (loss) from operating activities		**864**	**654**
Other administrative expenses	9	(308)	(302)
Amortisation and depreciation	9	(47)	(43)
Impairment losses on loans	10	(367)	52
Creation or release of reserves	22	81	(102)
Profit before income tax		**223**	**259**
Income tax expense	11	129	(2)
Net proft (loss) for the year		**352**	**257**

STATEMENT OF COMPREHENSIVE INCOME

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2018	2017
Profit or (loss) of current year after tax		**352**	**257**
Unrealized net gains (losses) on the revaluation of assets and liabilities, net of tax	25	n/a	(38)
Impact of reclassification of securities under IFRS 9		4	n/a
Total change in OCI from property revaluation		(32)	–
OCI from non - current assets and terminated groups for sale	25	(28)	n/a
OCI from cash flow hedges (effective part)	25	158	(1)
Other comprehensive income (OCI)		**130**	**(39)**
Total comprehensive income		**482**	**218**

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	2018	*1. 1. 2018*	2017
ASSETS				
Cash and deposits with central banks and other deposits payable on demand	13	60	*416*	n/a
Cash and balances with central bank	13	n/a	*n/a*	3,719
Financial instruments available-for-sale	16	n/a	*n/a*	2,255
Financial instruments held-to-maturity	16	n/a	*n/a*	1,145
Debt securities at fair value recognized in the OCI	16	2,033	*2,136*	n/a
Financial assets at amortised cost	3b, 14, 16	53,726	*57,310*	n/a
Debt securities valued at amortized cost	16	1,636	*1,268*	n/a
Loans and receivables at amortized cost	3b, 14	52,090	56,042	n/a
Loans and receivables	14	n/a	*n/a*	52,858
Hedging derivatives	15	3	*2*	2
Equipment	17	28	*23*	23
Intangible assets	18	54	*54*	54
Other assets	19	1,367	*1,713*	1,713
Current income tax assets		154	*935*	935
Deferred income tax assets	23	21	*51*	51
Total assets		**57,446**	***62,640***	**62,755**
LIABILITIES				
Derivatives for trading	15	120	*64*	64
Financial liabilities at amortized cost	20	46,010	*55,312*	55,312
Hedging derivatives	15	111	*313*	313
Other liabilities	21	4,021	*161*	161
Provisions	22	116	*199*	191
Total liabilities		**50,378**	**56,049**	**56,041**
Share capital	24	5,000	*5,000*	5 000
Revaluation reserve	25	(8)	*(133)*	(137)
Statutory reserve	26	773	*760*	760
Other special fund	26	1,078	*834*	834
Unpaid loss from previous periods (implementation of IFRS 9)		(127)	*(127)*	–
Retained earnings		352	*257*	257
Total equity		**7,068**	***6,591***	**6,714**
Total liabilities and equity		**57,446**	***62,640***	**62,755**

The Bank decided not to restate prior periods.

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	Unpaid from from previous period	Statutory reserve	Export risk reserve	Revaluation reserve	Total
At 1 January 2017		**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**
Methodological Changes – Implementation of IFSR 9		–	–	(127)	-	-	-	(127)
At 1 January 2018		**5,000**	**257**	**(127)**	**760**	**834**	**(137)**	**6,587**
Impact of reclassification of securities under IFRS 9	2u	–	–	–	–	–	4	4
Total change in OCI from property revaluation	25	–			–	–	(32)	(32)
OCI from non – current assets and terminated groups for sale	25	–	–	–	–	–	(28)	(28)
Change in cash flow hedges, net of tax	25	–	–	–	–	–	158	158
Net profit / (loss) for the year		–	352	–	–	–	–	352
Total recognised profit / (loss)		–	352	–	–	–	130	482
Influence of cross-rounding		–	–	–	–	–	(1)	(1)
Transfer to other special fund	26	–	(244)	–	–	244	–	–
Transfer to statutory reserve	26	–	(13)	–	13	–	–	–
At 31 December 2018		**5,000**	**352**	**(127)**	**773**	**1 078**	**(8)**	**7,068**

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	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		954	1,270
Interest paid		(1,122)	(1,448)
Net fee and commission received		149	119
Net trading and other income		52	(32)
Recoveries on loans previously written off		1 487	2,490
Cash payments to employees and suppliers		(406)	(510)
Income tax paid		909	(563)
Other taxes paid		(24)	(18)
Net cash used in operating activities before changes in operating assets and liabilities		**1,999**	**1,308**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net decrease (increase) in loans to banks		1,588	(1,074)
Net decrease (increase) in loans to customers		7,370	8,760
Net decrease (increase) in other liabilities		4,154	209
Net increase (decrease) in due to banks		3,764	(2,188)
Net increase (decrease) in due to customers		(106)	(1,286)
Net cash used in operating activities		**18,769**	**5,729**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(70)	(73)
Proceeds from sale of fixed assets		6	–
Purchase of securities		(670)	(170)
Proceeds from matured securities		181	129
Proceeds from sale of securities		178	1,215
Net cash used in investing activities		**(375)**	**1,101**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of bonds		647	–
Redemption of issued bonds		(13,739)	(11,151)
Repayments of state subsidy	8	(31)	–
Receipts of state subsidy	8	–	31
Net cash from financing activities		**(13,123)**	**(11,120)**
Effect of exchange rate changes on cash and cash equivalents		**(1)**	**(10)**
Net increase in cash and cash equivalents		**5,270**	**(4,300)**
Cash and cash equivalents at beginning of year	12	**6,293**	**10,593**
Cash and cash equivalents at end of year	12	**11,563**	**6,293**

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 use 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 obligations of the Bank of repayment of funds obtained from banks and other liabilities of 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-" with stable outlook credit rating to the Bank and Moody's Investor Service confirmed the "A1" rating and changed its outlook to positive. 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 modified for financial instruments. Financial instruments remeasured at fair value and securities pledged as collateral are measured at fair value at the reporting date.

Newly Applied Standards and Interpretations the Application of which Had a Significant Impact on the Financial Statements

- 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 - Disclosure - the Effective Date Effective for IFRS 9 and Transitional 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; and
- IFRS 4 Use of IFRS 9 Financial Instruments in Accordance with IFRS 4 Insurance Contracts, effective from 1 January 2018.

IFRS 9 had a material impact on the Bank's financial statements. The Bank's Board of Directors has approved the business model in accordance with the specific purpose of the Bank as an institution set up to support export. This model consists of providing loans in order to collect contractual cash flows including principal and interest. Credit sales are rare, usually in compliance with regulatory limits or the devalued credit resolution process. Free funds are invested in high-yield bonds to collect principal and interest. Sales from this portfolio are uncommon and usually occur shortly before maturity. Part of the available funds is also invested in bonds that will be measured at fair value through other comprehensive income, in accordance with the intention of both principal and interest payments and occasional liquidity management sales. As a result of the adoption of IFRS 9 as of 1 January 2018, reclassification of purchased securities amounting to CZK 119 million from available-for-sale securities to assets measured at amortised cost was made. The impact of the fair value of these bonds and the deferred tax of CZK 4 million was derecognised against the valuation difference account. The Bank did not sell these securities and their fair value was virtually unchanged in 2018 (fair value of CZK -4 million as of 31 December 2018, change in fair value of CZK 0 million). No significant financial assets with such contractual cash flows that should be reclassified and measured at fair value through profit or loss would have been identified at the end of 2018.

Market risks are limited by derivatives. The Bank continues to apply hedge accounting in accordance with IAS 39. 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 have been amended. The Bank has analysed the credit losses over the past 10 years, set out methods for assessing increased credit risk and for calculating the 12-month and lifetime expected credit losses. It further conducted the segmentation of the portfolio of financial assets and their classification into the individual risk levels. In assessing credit risk, the Bank did not only take into account the events that occurred, but took into account economically reasonable macroeconomic indicators and various scenarios of future events. The procedures for assessing the credit risk increase from the date of the initial recognition of the financial asset are based on a multifactorial analysis based on the assessment of the borrower's financial condition and payment morale, the deterioration of the borrower's rating, significant business events, and varied expectations of changes in business, financial or political conditions affecting the borrower. Debtor default is identified e.g. in the event of further quantitative deterioration of the results of this analysis, when negotiating a modification with a significant negative impact on the cash flow, when declaring the debtor's bankruptcy. The application of the requirement of IFRS 9 to write-offs and provisions for financial assets, contracted assets, issued financial guarantees and loan commitments, which did not significantly increase credit risk since the initial recognition, led to the creation of allowances and provisions of CZK 16 million for financial assets classified in Stage 1. For financial assets (Stage 2) or impaired assets (Stage 3) and trade receivables, an increase in allowances and provisions of CZK 111 million arose from the application of the method of reporting the expected credit losses over the life of the assets.

The Bank has captured changes in the valuation of financial instruments due to IFRS 9 in the opening balance of retained earnings. The Bank has made use of the possibility not to reverse the valuation of financial instruments retrospectively for the prior period.

The application of IFRS 9 required the application of new terms as follows:

- AC (amortised cost method) – method of measuring financial instruments where the value of initial measurement is increased by interest accrued through the effective interest rate and decreased by performed payments and potential allowances.
- FVOCI – method of measuring financial instruments where the value of initial measurement is adjusted for changes in fair value reported in other comprehensive income (OCI).
- FVTPL – method of measuring financial instruments where the value of initial measurement is adjusted for changes in fair value reported in profit or loss.
- Gross carrying amount of the financial asset – amortised cost of the financial asset before adjustment for allowances.
- Credit risk – risk that one party to a financial instrument will cause a loss to the other party by not fulfilling its liability.
- Credit losses – difference between all contractual cash flows due to the reporting entity pursuant to the contract and all cash flows that the reporting entity expects to collect (i.e. all cash deficits), discounted at the original effective interest rate (or effective interest rate adjusted for credit risk of purchased or originated credit-impaired financial assets). The reporting entity estimates the cash flows based on the assessment of all contractual conditions of the financial instrument throughout the expected life of the financial instrument. The reflected cash flows include cash flows from the sale of collateral held or other credit enhancements that are an integral part of the contractual conditions. It is assumed that the anticipated life of the financial instrument can be reliably estimated. However, in exceptional cases, when the anticipated life of the financial instrument cannot be reliably estimated, the reporting entity uses the remaining life of the financial instrument.
- Expected credit losses (ECL) – weighted average of credit losses where the weights are the respective risks of failure to fulfil commitments.

- 12-month expected credit losses – portion of credit losses for the period representing expected credit losses arising as a result of default of the financial instrument that can occur within twelve months of the reporting date.
- Lifetime expected credit losses – expected credit losses arising as a result of all possible failures to comply with commitments during the expected life of the financial instrument.

IFRS 15 "Revenue from Contracts with Customers", published on 28 May 2014, effective for annual periods beginning on or after 1 January 2018;

The Bank conducted an analysis of revenues, especially fees and other remuneration from contracts with customers. The application of IFRS 15 on these items did not lead to changes in accounting policies and had no impact on the presentation of these items.

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

- IFRS 2 "Classification and Measurement of Share-Based Payment Transactions" effective from 1 January 2018;
- IAS 40 "Transfers of Investment Property", effective from 1 January 2018;
- Annual improvements to IFRS – 2014–2016 cycle, effective from 1 January 2017/2018; and
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration", effective from 1 January 2018.

Standards and interpretations that are not effective, but have been adopted by the European Union

- IFRIC 23 – Uncertainty over Income Tax Treatments, effective from 1 January 2019;
- Amendment to IFRS 9 – Prepayment Features with Negative Compensation, effective from 1 January 2019;
- These standards will have no significant impact on the financial statements of the Bank as of 31 December 2019.

- IFRS 16 Leases, effective from 1 January 2019
  The Bank analysed lease contracts under IFRS 16. It does not expect significant impacts from the identification of lease assets under this Standard. The Bank does not record lease assets to the extent referred to in IAS 17 by the end of 2018. From 1 January 2019, the Bank applies the requirements of IFRS 16 Leases, and it chose to use the modified retrospective method for measurement of the lease liability and the right of use, using a modified retrospective method of measuring lease liabilities and rights of use. An item of operating leases has been identified that will be reported as a lease liability. As of 1 January 2019, the lease liability will be measured at the present value of quarterly instalments paid in advance over the expected rental period of 5 years discounted at the borrowing rate of 1.88%. The value of the lease liability and the right of use was set at CZK 86 million.

Standards and interpretations that are not yet effective and have not been adopted by the European Union

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

- IFRS Annual Improvement - Cycle 2015-2017 effective from 1 January 2019;
- IFRS 17 - Insurance Contracts, effective from 1 January 2019;
- Adjustments to Standard 28 Long-term Shares in Associates and Joint Ventures, effective from 1 January 2019;
- Amendments to IFRS 10 a IAS 28, Sale or deposit of assets between the investor and its affiliated or joint venture, Effective date not specified;
- IFRS 14 Regulatory Deferral Accounts, issued in January 2014, effective from 1 January 2016;
- Amendments to IFRS 3 Definition of a Business, issued in October 2018, effective from 1 January 2020;
- Amendments to IAS 1 and IAS 18 Definition of Material, issued in October 2018, effective from 1 January 2020;
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement, issued in February 2018, effective from 1 January 2019; and
- Amendments of references to the Conceptual Framework, issued in March 2018.

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 significant impact on the financial statements of the Bank prepared as of 31 December 2019, including comparative information as of 31 December 2018.

(b) Segment reporting

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

(c) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currencies are reported in the income statement as 'Net profit from financial operations including state subsidy'.

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

	EUR	USD
31 December 2018	25.725	22.466
31 December 2017	25.540	21.291

(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 through profit or loss (FVTPL). 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'.

The Bank decided not to apply the hedge accounting rules pursuant to IFRS 9 and it continues to apply the guidance set out in IAS 39. 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 are recognised within 'Interest income' and 'Interest expense' in the income statement using the effective interest rate method, with the exception of interest on derivatives hedging interest rate risks. Interest on financial instruments at fair value through profit or loss (FVTPL) that do not function as effective hedging instruments is part of gains and losses arising from changes in fair value reported under "Net profit from financial operations including state subsidy"

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 credit losses. The effective interest rate is adjusted for credit losses only if a credit-impaired financial asset is acquired or originates.

The calculation of the effective interest rate 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. For a credit-impaired financial asset, interest income is recognised using the interest rate applied to the amortised cost of the financial asset.

(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 is derecognised. Advisory and service fees are reported based on the appropriate service contracts and they are recognised in income as the Bank fulfils its liabilities.

(g) Financial assets

The Bank classifies its financial assets upon their initial recognition based on the Bank's business model and based on the assessment of the contractual cash flows of the financial assets.

The Bank applies a mixed business model. The objective of the main business model is to obtain contractual cash flows, which are the principal and interest on unpaid principal. The Bank's supplementary strategy is the purchase and holding of an asset in order to obtain contractual cash flows from the principal and interest as well as in order to sell it.

The financial asset is measured at amortised costs **(AC)** if it is:

a) Held as part of the business model whose objective is to hold assets in order to obtain contractual cash flows; and
b) Contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid portion of the principal.

The financial asset is measured at fair value through other comprehensive income **(FVOCI)** if it is:

a) Held as part of the business model whose objective is achieved by collecting contractual cash flows as well as the sale of the asset; and
b) Contractual conditions of the financial asset set specific dates of cash flows composed exclusively of payments of the principal and interest on the unpaid portion of the principal.

Financial assets that do meet the above conditions are measured at fair value through profit or loss **(FVTPL)**

If the financial asset is part of a hybrid contract, the entire hybrid contract is assessed from the perspective of the business model and characteristics of cash flows.

The assessment of the relation to the business model is based on past experience, goals to be met, the assessment method and management of risks and expected benefits.

The characteristics of contractual cash flows are assessed in respect of whether they are solely payments of the principal and interest. For arrangements concerning interest, it is assessed whether they are consistent with basic contractual arrangements, i.e. whether the interest includes only credit risk, time value of money and other basic risks and profit margins.

Financial assets can be reclassified only if the business model changes.

Initial recognition of financial assets

All purchases and sales of financial assets or liabilities, except for derivatives, are recognised at the settlement date. Upon initial recognition, financial assets are measured at fair value through profit or loss. For financial assets not measured at FVTPL, the fair value is increased or decreased on initial recognition by transaction costs that are directly related to the acquisition of the financial asset.

Upon the acquisition of a financial asset, the Bank does not record the difference between the recognised fair value of the financial asset and the measurement value as of the specific date using the measurement technique.

Valuation of financial assets as of the balance sheet date

Financial assets at amortised cost (AC) predominantly include provided loans and other receivables and part of purchased bonds. The amortised cost is increased in 'Interest income' using the effective interest rate.

Bonds at fair value through other comprehensive income (FVOCI) are remeasured to fair value after initial recognition. Gains and losses arising from changes in fair values are reported directly through equity until the financial asset is derecognised or impaired. Impairment is recognised in equity against profit and loss accounts. However, the interest calculated using the effective interest rate method is reported in the income statement under 'Interest income'.

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 credit spreads.

Modification of financial assets

If the contractual conditions of a financial asset are changed or otherwise modified, the Bank assesses whether the change was material enough to lead to derecognition. Material modification is indicated by the following events:

- Change of loan currency;
- Impact of a change in the present value of future cash flows after and before modification calculated using the effective interest rate is higher than 5% (inclusive), which is indicated by complete restructuring (e.g. division of an existing loan into several loans with various conditions), change of interest rate from fixed to variable or vice versa, significant extension of the loan's contractual maturity.

In such a case, the original asset is derecognised and the Bank recognises a new financial asset measured on initial recognition at fair value. The difference between the amortised cost of the original asset and the fair value of the new modified asset is reported in profit or loss.

If the modification is not material, the Bank recalculates the gross carrying amount of the financial asset by discounting modified contractual cash flows with the effective interest rate and the difference is reported in profit or loss (Gains/losses from modification).

De-recognition of financial assets

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. The difference between the carrying amount of the financial asset (or its part) that ceased to exist or was transferred to another party, and the payment made is recognised in profit or loss.

(h) Impairment of assets

The Bank creates allowances and provisions for expected credit losses for financial assets at amortised cost or at fair value through other comprehensive income, issued financial guarantees, provided credit commitments and receivables arising from contractual assets.

As of the date of initial recognition the Bank assesses whether the credit risk has increased. If the credit risk has not increased (stage 1), the Bank calculates allowances and provisions in the amount of expected twelve-month credit losses for each reporting date. If material credit risk has occurred (stage 2), the Bank recognises an allowance or provision in the amount of lifetime expected losses. Financial assets are impaired (stage 3) if one or more events have occurred having an adverse impact on the expected future cash flows related to the financial assets. The purchased or originated credit-impaired (POCI) assets report allowances only as the accumulated change in expected credit losses for the period since first recognition.

Allowances decrease the value of the financial asset at amortised cost (AC) in the balance sheet. Allowances against financial assets at fair value through other comprehensive income (FVOCI) are recognised through other comprehensive income. Provisions for credit losses are reported in the balance sheet under "Provisions".

The quantification of expected credit loss (ECL) is based on the undistorted and probability-weighted amount that is the result of various scenarios, includes the time value of cash and is based on adequate and demonstrable information that is available without incurring disproportionate costs.

The policies and assumptions used to quantify expected credit loss are described in Note 3b).

Write-off

Write-off is made if the Bank does not have adequate expectations that the value of the financial asset as a whole or a part will be recovered.

(i) Sale and repurchase agreements

Financial assets sold under repurchase agreements (repos) are not derecognised and they are reported separately as pledged assets. Received payment for the sale is considered a received loan.

Financial assets purchased under resale agreements (reverse repo transactions) are considered for loans granted to other banks or clients. They are classified in accordance with the Bank's business model and the characteristics of the negotiated cash flows as AC or, FVOCI.

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

Securities borrowed are not recognised in the financial statements, unless 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 acquire and bring to use the specific software.

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

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

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

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

(k) Leases

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

(l) Cash and cash equivalents

For the purposes of cash flow statement reporting, cash and cash equivalents comprise balances with less than three months' maturity and include current accounts 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 in the Czech Republic, as an expense in the period in which taxable profits are generated.

(o) Financial liabilities

Initial recognition of financial liabilities

Upon initial recognition financial liabilities are measured at fair value through profit or loss. For financial liabilities not measured as FVTPL, the fair value is increased or decreased by the transaction costs directly related to the acquisition of the financial assets.

Upon the acquisition of the financial liability, the Bank records no difference between the recognised fair value of the financial liability and the measurement amount as of the respective date using a valuation technique.

Valuation of financial liabilities as of the balance sheet date

The category of financial liabilities at amortised cost (AC) includes payables to banks, to clients, issues of own bonds and other financial liabilities. A derivative embedded in a contract on a financial liability is separated and recognised separately if the economic features of the embedded derivative and the related risks are not closely related to the economic features of the host contract, a separate instrument with the same conditions as the embedded derivative would satisfy the definition of a derivative and the hybrid contract is not measured at fair value through profit or loss.

Derecognition of financial liabilities

Financial liabilities are derecognised as soon as they cease to exist – i.e. when the liability is cancelled, settled or ceases to be valid. The difference between the carrying amount of the financial liability that ceased to exist or was transferred to another party and the payment made is recognised in profit or loss.

(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

Plus/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. In addition, provisions are recognised for expected credit losses from issued financial guarantees and provided credit commitments.

(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 higher of (i) expected credit losses, or (ii) remaining unaccrued amounts upon first recognition. Allowances are recognised against receivables related to fees owed.

The Bank enters into contingent financial relationships also 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. Before the conditions precedent have been met, signed credit contracts are recorded only in the information system of the Bank. Credit commitments are initially measured at fair value which is usually the present value of fees for the provision of the commitment. Assuming that the provision of the credit commitment is probable, these fees are accrued through the effective interest rate in income throughout the life of the liability. Subsequently, credit commitments are measured at the higher of (i) expected credit losses, or (ii) remaining unaccrued amounts upon first recognition. Allowances are recognised against receivables related to fees owed.

(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) Reclassification of financial assets on transition to IFRS 9

(CZK'm)

		IAS 39					IFRS 9
Statement of Financial Situation to 31 December 2017	Valuation category under IAS 39	Book value in accordance with IAS 39	Changes – reclassifications between categories	Changes – transition to IFRS 9	**Statement of Financial Situation to 1 January 2018**	Valuation category under IFRS 9	Book value in accordance with IFRS 9
Cash and balances with central bank	L&R	3,719	(3,302)	(1)	Cash and cash with the central bank and other deposits repayable on demand	AC	416
Securities available-for-sale	AFS	2,255	(119)	–	Debt securities at FV recognized in the OCI	FVTOCI	2,136
Securities held-to-maturity	HTM	1,145	123	–	Debt securities valued at amortized cost	AC	1,268
Loans and receivables	L&R	52,858	3,302	(118)	Loans and receivables at amortized cost	AC	56,042
Hedging derivatives with positive FV		2	–	–	Hedging derivatives		2
Equipment		23	–	–	Equipment		23
Intangible assets		54	–	–	Intangible assets		54
Other assets		1,713	–	–	Other assets		1,713
Current income tax assets		935	–	–	Current income tax assets		935
Deferred income tax assets		51	–	–	Deferred income tax assets		51
Total assets		**62,755**	**4**	**(119)**			**62,640**
Financial liabilities held for trading	FVTPL	64	–	–	Financial liabilities held for trading	FVTPL	64
Financial liabilities at amortized cost		55,312	–	–	Financial liabilities at amortized cost		55,312
Hedging derivatives with negative FV		313	–	–	Hedging derivatives with negative FV		313
Other liabilities		161	–	–	Other liabilities		161
Provisions		191	–	8	Provisions		199
Total liabilities		**56,041**	**–**	**8**			**56,049**
Share capital		5,000	–	–	Share capital		5,000
Revaluation reserve		(137)	4	–	Revaluation reserve		(133)
Statutory reserve		760	–	–	Statutory reserve		760
Other special fund		834	–	–	Other special fund		834
Retained earnings		257	–	(127)	Retained earnings		130
Total equity		**6,714**	**4**	**(127)**	**Total equity**		**6,591**
Total liabilities and equity		**62,755**	**4**	**(119)**	**Total liabilities and equity**		**62,640**

(CZK'm)								
	IAS 39				**IFRS 9**			
as of 31 December 2017	Book value in accordance with IAS 39	of with: standard	of with: risk	**to 1 January 2018**	Book value in accordance with IFRS 9	of with: Stage 1	of with: Stage 2	of with: Stage 3
Provided financial guarantees	1,721	*1,084*	*637*	Provided financial guarantees	**1,721**	*909*	*175*	*637*
Granted loan commitments	1,702	*1,077*	*625*	Granted loan commitments	**1,702**	*1,057*	*645*	–
Contingent assets total	**3,423**	*2,161*	*1,262*		**3,423**	*1,966*	*820*	*637*

On the occasion of the application of IFRS 9 and in order to provide more relevant information, the Bank has decided to reclassify, as of 1 January 2018, receivables from the central bank arising from short-term deposits and loans of CZK 3,699 million from Cash and deposits to Loans and receivables, whereas Loans and receivables were transferred to Cash in hand, cash at central banks and other deposits payable on demand in the amount of CZK 397 million.

Only derivatives were measured at FVTPL in both 2017 and 2018. The Bank does not hold any equity interests in financial assets.

Change in retained earnings due to transition to IFRS 9

(CZK'm)				
	IAS 39			**IFRS 9**
Categorization to 31 December 2017	Book value in accordance with IAS 39	Changes – reclassification and transition to IFRS 9	**Categorization to 1 January 2018**	Book value in accordance with IFRS 9
Standard	–	*(8)*	Stage 1	(8)
Watched	(40)	*(68)*	Stage 2	(108)
Lossy	(6,587)	*(28)*	Stage 3	(6,615)
ADJUSTMENTS to loans	**(6,627)**	***(104)***	**ADJUSTMENTS for loans at amortized cost**	**(6,731)**
Uncategorized	(2)	*(15)*	Stage 3	(17)
ADJUSTMENTS to other receivables	**(2)**	***(15)***	**ADJUSTMENTS to other receivables (AC)**	**(17)**
ADJUSTMENTS total	**(6,629)**	***(119)***	**OPRAVNÉ POLOŽKY total**	**(6,748)**
Standard	–	*(5)*	Stage 1	(5)
Lossy	(118)	–	Stage 3	(118)
RESERVES for provided financial guarantees	**(118)**	***(5)***	**RESERVES for provided financial guarantees**	**(123)**
Standard	–	*(3)*	Stage 1	(3)
RESERVES to granted loan commitments	**–**	***(3)***	**RESERVES to granted loan commitments**	**(3)**
RESERVES total	**(118)**	***(8)***	**RESERVES total**	**(126)**
		(127)	**REDUCED PROFIT TOTAL CHANGE**	

Accounting policies valid as of 31 December 2017

(v) 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):

- rate 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.

(w) 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 2018	25.725	22.466
31 December 2017	25.540	21.291

(x) 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'.

(y) 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.

(z) 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.

(aa) 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.

(bb) 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.

(cc) 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.

(dd) 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 acquire and bring to use the specific software. Depreciation of tangible and intangible fixed assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Years
Motor vehicles	5
Furniture and fittings	2 – 10
Office equipmen	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.

[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

(ee) 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.

(ff) 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..

(gg) 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.

(hh) 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.

(ii) 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.

(jj) 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.

(kk) 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.

(ll) 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.

(mm) 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.

(nn) 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 arranged insurance of export credit risks.é

3 / RISK MANAGEMENT

(a) Strategy in using financial instruments

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

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

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

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

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

In 2018 and in 2017 the Bank did not make any reclassification of 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

At each reporting date, the Bank assesses whether or not the credit risk related to the financial asset has significantly increased since initial recognition.

The Bank's financial assets are classified in 3 risk stages (Stage I – III) and a special category POCI.

- Stage I includes financial assets for initial recognition (excluding POCI) and financial assets for which the credit risk has not significantly increased from initial recognition to the reporting date.
- Stage II includes financial assets for which credit risk has increased significantly from initial recognition to the reporting date but which are not credit-impaired at the reporting date.
- Stage III includes financial assets that are credit-impaired at the reporting date (default).
- Financial assets classified as POCI include financial assets that are impaired at the date of initial recognition, except for receivables from invoices.

The assessment whether there has been a significant increase in credit risk since initial recognition is based on all reasonable and demonstrable information available to the Bank without incurring undue expense or effort. These include historical information, information on future prospect and credit risk assessment over the expected life of the financial asset, including information on the circumstances that led to the potential modification.

The assessment whether there has been a significant increase in credit risk (SICR) is performed individually by monitoring the following warning signals:

- Failure to meet financial covenants by the debtor or at the level of economically-related entities;
- Sales drop of more than 20% in year-on-year comparison;
- Failure to comply with approved conditions precedent (e.g., submission of financial statements, provision of collateral, addition to equity, etc.), even after ČEB's request for remedy;
- Delay in project implementation and putting into operation of more than 6 months;
- Change of majority control over the debtor;
- Change/departure of key members of the debtor's management (CEO, CFO, most members of the statutory and supervisory body);
- Submitting an insolvency petition for the debtor, co-debtor or guarantor;
- Distraint of the debtor, co-debtor or guarantor's assets;

- Prosecution for economic offences involving natural persons or legal entities involving the debtor, co-debtor or guarantor;
- Existence of past due liabilities to the tax authority or social security administration;
- Loss of a key customer or supplier;
- Termination of cooperation with an existing financing bank;
- Repeated negative publicity or negative information from the banking and business environment regarding the debtor, co-debtor or guarantor; or
- Another major event concerning the debtor, co-debtor or guarantor, or at the level of economically-related entities, which may have a material negative impact on the ability of the client to make repayments.

The assessment whether there has been a significant increase in credit risk since initial recognition is also based on a significant increase in the likelihood or risk of default since initial recognition, rather than on evidence that the financial asset has been impaired as of the reporting date or at the time when default actually occurred (therefore, when determining whether the credit risk has significantly increased since the initial recognition, the Bank cannot rely solely on information on days past due, if it has access to available information what would be more informative regarding the future than days past due.)

The Bank assesses the probability of default of individual counterparties on an individual basis using rating models. The Bank has developed a rating model for assessing the risk level of corporate clients, risks of banks and a model for project quality assessment. The rating models are subject to validation and updated as and when necessary.

Debtor default means a situation where at least one of the following conditions is met:
- It can be assumed that the debtor is unlikely to pay the full liability without the creditor seeking satisfaction from collateral;
- At least one instalment of the principal or interest and other charges of any of debtor's debts to the creditor is overdue for more than 90 days; the export bank does not need to take this condition into account if the overdue amount is not material; the materiality threshold is set by the export bank, taking into account the amount that is not collected when the receivable is written off.

The indicator that the debtor will probably not fully repay the debt to the creditor without the creditor seeking satisfaction from collateral is, in particular:
- The non-application of the accrual principle for an exposure, i.e. interest or other charges of the exposure are not accounted for in the period to which they relate on an accrual basis;
- Performing an exposure valuation adjustment based on a significant decrease in credit quality recorded after the origination of exposure;
- Expectation that the exposure will be sold with significant economic loss associated with credit quality;
- Consent to forced restructuring of exposure; forced restructuring occurs when the debtor is given relief because the creditor has assessed that not doing so would probably lead to loss for the creditor. For economic or legal reasons connected with the debtor's financial situation, the creditor therefore grants relief to the debtor that would otherwise not have been granted. This includes in particular reorganisation of the repayment schedule, reduction of the interest rate, waiving of default interest, deferment of repayments of principal or related interest and other charges.
- The fact that a bankruptcy petition has been filed with respect to the debtor;
- The fact that the debtor is in bankruptcy or likely to become so, and this fact or this expectation could threaten or delay the repayment of the debtor’s debt to the export bank or an entity in the regulated consolidation group; or
- The fact that there are other relevant and significant factors including the financial and economic situation of the debtor.

Recognition of allowances and provisions

Recognition of allowances and provisions is based on the expected credit loss (ECL), which is expressed as the weighted average of credit losses. The ECL estimate must reflect the likelihood that the credit loss will occur even if it is most likely that the credit loss will not occur.

For **Stage I** assets, the 12-month ECL is used to quantify the allowances and provisions, representing the expected credit losses incurred as a result of a financial instrument default that may occur within twelve months of the reporting date.

In segments of credit receivables, off-balance sheet products and trade receivables in Stage I, the Bank uses the portfolio approach to determine the ECL. The collectively determined probability of loss determined based on an analysis of prior periods is applied to exposure at default (EAD), where EAD is the gross carrying amount net of all regulatory accepted collateral. The resulting recognition of allowances and provisions is allocated to the individual financial assets.

In the segment of money market and capital instruments bearing low credit risk, the Bank uses an individual approach to quantify ECL. The ECL quantification is based on the three components used by the Bank: probability of default (PD), exposure at default (EAD), and estimated loss given default (LGD). PD is an estimate of the probability of default over a given time period. EAD expresses the unsecured portion of the receivable. LGD represents the Bank's expected loss on the exposure, taking into account the specific characteristics of the collateral.

For exposures with portfolio significance, the Bank's calculation of allowances and provisions includes a coefficient expressed by macroeconomic indicators based on the expectation of further economic development of the country.

For **Stage 2, 3 and POCI** assets, the calculation of allowances and provisions uses the lifetime ECL, which are the expected credit losses that arise from all possible failures to meet commitments over the expected life of the financial instrument. The Bank uses the individual approach and the expected cash flow method for its determination.

No financial asset of the Bank was arranged or originated as credit impaired (POCI).

Credit risk management

The Bank structures the levels of the credit risk assumed by setting limits for the amount of acceptable risk in relation to one debtor or group of debtors, geographical segment, industry concentration, or other significant concentration with a common risk factor.

Exposure with respect to one debtor or one economically linked group of debtors does not exceed the exposure limits set by the regulation (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). On the grounds of prudence and in order to comply with regulatory limits, the Bank limits exposure to one debtor or one economically linked group by signal exposure limit valuesexpressed as a percentage of the exposure limits set by the regulation. Exposure to banks and traders is further limited by business limits for balance sheet and off-balance sheet items and settlement risk limits. Significant concentrations of credit risk with respect to one debtor or group of debtors where the probability of default is affected by a common risk factor (the territory of the registered office and the debtor's industry) are restricted by the concentration limits. The current position with respect to the exposure limits and concentration limits is monitored daily. All limits are subject to regular reviews at least once a year.

Maximum credit risk exposure before collateral instruments are applied

(CZK'm)							**2018**
	Gross exposure total			Used to ensure that exposures			
	Balance sheet position	Off-balance sheet position	Exposure total	Statement of financial position	Off-Balance Sheet	Ensuring total	**Exposure value**
Exposures to central banks and governments	19,785	2,087	**21,872**	3,678	1,614	**5,292**	**16,580**
Exposure to public sector entities	8	–	**8**	–	–	**–**	**8**
Exposures to multilateral development banks	187	–	**187**	–	–	**–**	**187**
Exposures to institutions	786	200	**986**	–	–	**–**	**986**
Corporate exposure	22,157	3 990	**26,147**	19,505	3,491	**22,996**	**3,151**
Exposures in default	15,510	–	**15,510**	15,133	–	**15,133**	**377**
Other exposure	340	–	**340**	–	–	**–**	**340**
Total exposure	**58,773**	**6,277**	**65,050**	**38,316**	**5,105**	**43,421**	**21,629**

(CZK'm)							2017
	Gross exposure total			Used to ensure that exposures			
	Balance sheet position	Off-balance sheet position	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**
Exposure 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**

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 taken 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 Bank in 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, eg. a lien on the subject of exports, pledge of movable and immovable assets, financial collateral, third party guarantee, revenue pledge and assignment of insurance claims, etc.

Plant construction project in Turkey

In the area of capturing credit losses, the Bank still faces certain uncertainties in connection with the commercial case of construction of the Yunus Emre power plant in Turkey (gross exposure of EUR 469 million). The Bank, together with EGAP, continues to cooperate with the Turkish side in implementing steps to sell the debtor's assets. From the point of view of the Bank's risks, the 99% insurance coverage of the receivable by the insurance company EGAP, for whose liabilities the Czech state guarantees, is an important mitigating factor. Within the Bank's co-payment, provisions were adequately created. The Bank has announced an insured event that is being investigated by EGAP at the time of preparation of the financial statements. Considering these uncertainties Bank decided to relinquish the identification of unwinding impacts.

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 rate for the respective currency.

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

Other financial assets

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

Credit commitments and similar instruments

The primary purpose of these instruments is to ensure that funds are available to customers, 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.

Performing and non-performing exposures and exposure with forbearance (IFRS 9)

(CZK'm)								**2018**
								IFRS 9
		Book value (Gross)				**Cumulative Impairment and Cumulative Changes (-) FV due to Credit Risk and Reserves**		
	Exposure total netto	Executive exposures	Nonperforming exposures	of which: failing	of which: depreciated	**Total depreciation**	of which: executive	of which: inefficient
Debt securities held-to-maturity	**1,636**	1,636	–	–	–	**–**	–	–
Loans and receivables	**52,090**	37,693	21,568	*21,568*	*21,568*	**(7,171)**	*(146)*	*(7,025)*
Financial assets at amortised cost	**53,726**	39,329	21,568	*21,568*	*21,568*	**(7,171)**	*(146)*	*(7,025)*
Debt securities	**2,033**	2,033	–	–	–	**–**	–	–
Debt instruments at FV reported to OCI	**2,033**	2,033	–	–	–	**–**	–	–
Executive exposures and non-performing exposures in total	**55,759**	41,362	21,568	*21,568*	*21,568*	**(7,171)**	*(146)*	*(7,025)*
Credit commitments	**4,976**	4,976	–	–	*x*	**(4)**	*(4)*	–
Financial guarantees	**1,134**	981	153	*153*	*x*	**(41)**	*(7)*	*(34)*
Off-balance sheet total exposures	**6,110**	5,957	153	*153*	*x*	**(45)**	*(11)*	*(34)*

Performing and non-performing exposures and exposure with forbearance (IFRS 9)

(CZK'm)								**1 January 2018**
								IFRS 9
		Book value (Gross)				**Cumulative Impairment and Cumulative Changes (-) FV due to Credit Risk and Reserves**		
	Exposure total netto	Executive exposures	Nonperforming exposures	of which: failing	of which: depreciated	**Total depreciation**	of which: executive	of which: inefficient
Debt securities held-to-maturity	**1, 268**	1,268	–	–	–	**–**	–	–
Loans and receivables	**63,206**	40,466	22,740	*22,740*	*22,740*	**(6,747)**	*(126)*	*(6,621)*
Financial assets at amortised cost	**64,474**	41,734	22,740	22,740	22,740	**(6,747)**	*(126)*	*(6,621)*
Debt securities	**2,136**	2,137	–	–	–	**(1)**	*(1)*	–
Debt instruments at FV reported to OCI	**2,136**	2,137	–	–	–	**(1)**	*(1)*	–
Executive exposures and non-performing exposures in total	**66,610**	43,871	22,740	*22,740*	*22,740*	**(6,748)**	*(127)*	*(6,621)*
Credit commitments	**1,702**	1,702	–	–	*x*	**(3)**	*(3)*	–
Financial guarantees	**1,721**	1,084	637	–	*x*	**(241)**	*(123)*	*(118)*
Off-balance sheet total exposures	**3,423**	2,786	637	–	*x*	**(244)**	*(126)*	*(118)*

Performing and non-performing exposures and exposure before and past due date

(CZK'm)											2018
											IFRS 9
	Book value (Gross)										
	Executive exposures		Total	Non-performing exposures					Total		**Exposures TOTAL**
interval owerdue	=0 <30 days	>30 days <90 days		=0 <90 days	>90 <180 days	>180 <1 year	>1 year <5 years	>5 years			
Debt securities	1,636	–	1,636	–	–	–	–	–	–		**1,636**
Loans and receivables	35,397	2,296	37,693	484	2	–	17,621	3,461	21,568		**59,261**
Debt instruments at amortized cost	**37,033**	**2,296**	**39,329**	**484**	**2**	**–**	**17,621**	**3,461**	**21,568**		**60,897**
Debt securities	2,033	–	2,033	–	–	–	–	–	–		**2,033**
Debt instruments at FV reported to OCI	**2,033**	**–**	**2,033**	**–**	**–**	**–**	**–**	**–**	**–**		**2,033**
Executive exposures and non-performing exposures in total	**39,066**	**2,296**	**41,362**	**484**	**2**	**–**	**17,621**	**3,461**	**21,568**		**62,930**

Performing and non-performing exposures and exposure before and past due date

(CZK'm)											1 January 2018
											IFRS 9
	Book value (Gross)										
	Executive exposures		Total	Non-performing exposures					Total		**Exposures TOTAL**
interval owerdue	=0 <30 days	>30 days <90 days		=0 <90 days	>90 <180 days	>180 <1 year	>1 year <5 years	>5 years			
Debt securities	1,268	–	1,268	–	–	–	–	–	–		1,268
Loans and receivables	40,465	–	40,465	703	8	9	19,777	2,243	22,740		63,205
Debt instruments at amortized cost	**41,733**	**–**	**41,733**	**703**	**8**	**9**	**19,777**	**2,243**	**22,740**		**64,473**
Debt securities	2,137	–	2,137	–	–	–	–	–	–		2,137
Debt instruments at FV reported to OCI	**2,137**	**–**	**2,137**	**–**	**–**	**–**	**–**	**–**	**–**		**2,137**
Executive exposures and non-performing exposures in total	**43,870**	**–**	**43,870**	**703**	**8**	**9**	**19,777**	**2,243**	**22,740**		**66,610**

Reconciliation of allowances and provisions (IFRS 9)

(CZK'm)									2018
									IFRS 9
	Initial state	Increase in occurrence	Decrease when decredited	Changes in credit tisk (net)	Decrease in depreciation	Other adjustments	Final state	Revenue from depreciation to P/L	Depreciation to P/L
Adjustments to debt instruments									
Loans and receivables at amortized cost	**(24)**	(47)	45	–	–	14	**(13)**	13	(11)
Stage 1 – for assets without significant increase in credit risk	**(24)**	(47)	45	–	–	14	**(13)**	13	(11)
Loans and receivables at amortized cost	**(108)**	–	–	(22)	–	(3)	**(133)**	–	–
Stage 2 – for debt instruments with significant credit risk increase	**(108)**	–	–	(22)	–	(3)	**(133)**	–	–
Loans and receivables at amortized cost	**(6,616)**	–	–	(383)	41	(68)	**(7,025)**	1,417	(1,417)
Stage 3 –for Debt Relating Debt Instruments									
Loans and receivables at amortized cost	**(6,616)**	–	–	(383)	41	(68)	**(7,025)**	1,417	(1,417)
Total	**(6,748)**	**(47)**	**45**	**(405)**	**41**	**(57)**	**(7,171)**	**1,430**	**(1,428)**
Reserves for commitments and financial guarantees									
Stage 1	**8**	18	(14)	–	–	(2)	**11**	–	–
Stage 2	**–**	–	–	–	–	–	**–**	–	–
Stage 3	**118**	–	–	(85)	–	1	**34**	–	–
Total	**126**	**18**	**(14)**	**(85)**	**–**	**(1)**	**45**	**–**	**–**

Items unwinding of the discount been reclassified to interest income.

Reconciliation of provisions and provisions (IAS 39)

(CZK'm)								2017
								IAS 39
	Initial state	Creation	Release	Use	Other adjustments	Final state	Revenues from writeoffs to P/L	Adjustments to P/L
Debt securities	**–**	–	–	–	–	–	–	–
Loans and receivables	**(8,319)**	(147)	167	1,278	392	(6,629)	4,184	(5,431)
Adjustments and other adjustments to financialassets measured individually	**(8,319)**	(147)	167	1,278	392	(6,629)	4,184	(5,431)
Adjustments and other adjustments to financial assets in total	**(8,319)**	**(147)**	**167**	**1,278**	**392**	**(6,629)**	**4,184**	**(5,431)**

Credit Risk Exposure (IFRS 9)

(CZK'm)							2018
							IFRS 9
	Carrying value	**Carrying value (brutto)**			**Accumulated depreciation**		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Debt securities at fair value recognized in the OCI	**2,033**	**2,033**	**–**	**–**	**–**	**–**	**–**
Government Institutions	**1,847**	1 847	–	–	–	–	–
Credit institutions	**186**	186	–	–	–	–	–
Financial assets at amortized cost	**53,725**	**26,637**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**
Debt securities valued at amortized cos	**1,635**	1,635	–	–	–	–	–
Government Institutions	**1,585**	1,585	–	–	–	–	–
Credit institutions	**50**	50	–	–	–	–	–
Loans and receivables at amortized cost	**52,090**	25,002	12,690	21,569	(12)	(133)	(7,026)
Central banks	**10,983**	10,984	–	–	(1)	–	–
Government Institutions	**3,964**	3,970	–	–	(6)	–	–
Credit institutionse	**931**	682	249	116	–	–	(116)
Other financial institutions	**6**	6	–	3	–	–	(3)
Non-financial corporations	**36,206**	9,360	12,441	21,450	(5)	(133)	(6,907)

(CZK'm)						2018
						IFRS 9
	Carrying value (brutto)			**Accumulated depreciation**		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Granted loan commitments total	**4,921**	**55**	**–**	**(5)**	**–**	**–**
Government Institutions	2,087	–	–	(1)	–	–
Credit institutions	16	55	–	–	–	–
Non-financial corporation	2,818	–	–	(4)	–	–
Provided financial guarantees total	**957**	**24**	**153**	**(7)**	**–**	**(34)**
Non-financial corporations	957	24	153	(7)	–	(34)

(CZK'm)							1. 1. 2018
							IFRS 9
	Účetní hodnota	**Účetní hodnota (brutto)**			**Kumulované znehodnocení**		
		Stupeň 1	Stupeň 2	Stupeň 3	Stupeň 1	Stupeň 2	Stupeň 3
Debt securities at fair value recognized in the OCI	**2,136**	**2,136**	**–**	**–**	**–**	**–**	**–**
Government Institutions	**1,817**	1 817	–	–	–	–	–
Credit institutions	**319**	319	–	–	–	–	–
Financial assets at amortized cost	**57,310**	**27,156**	**14,160**	**22,740**	**(17)**	**(108)**	**(6,621)**
Debt securities valued at amortized cost	**1,268**	1,268	–	–	–	–	–
Government Institutions	**1,218**	1,218	–	–	–	–	–
Credit institutions	**50**	50	–	–	–	–	–
Loans and receivables at amortized cost	**56,042**	**25,888**	**14,160**	**22,740**	**(17)**	**(108)**	**(6,621)**
Central banks	**3,700**	3,700	–	–	–	–	–
Government Institutions	**4,431**	4,431	–	–	–	–	–
Credit institutions	**3,496**	3,498	–	115	(2)	–	(115)
Other financial institutions	**10**	20	–	3	(10)	–	(3)
Non-financial corporations	**44,405**	14,239	14,160	22,622	(5)	(108)	(6,503)

(CZK'm)						1 January 2018
						IFRS 9
	Carrying value (brutto)			**Accumulated depreciation**		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Granted loan commitments total	**1,077**	**625**	**–**	**(3)**	**–**	**–**
Credit institutions	22	–	–	–	–	–
Non-financial corporations	1,055	625	–	(3)	–	–
Provided financial guarantees total	**1,084**	**–**	**637**	**(5)**	**–**	**(118)**
Other financial institutions	13	–	–	–	–	–
Non-financial corporations	1,071	–	637	(5)	–	(118)

Development of exposures by degree of credit risk during the year (IFRS 9)

(CZK'm)												2018
												IFRS 9
	Carrying value of exposure (brutto)											
				Movements during the year								
	Balance at 1.1.2018				**Transfers to (from)**					**Balance at 31.12.2018**		
	Stage 1	Stage 2	Stage 3	Newly bought/ granded	Stage 1	Stage 2	Stage 3	Sold/ paid	Exchange differences	Stage 1	Stage 2	Stage 3
Debt securities at fair value recognized in the OCI	**2,136**	**–**	**–**	**125**	**–**	**–**	**–**	***(234)***	***6***	**2,033**	**–**	**–**
Institution	1,817	–	–	125	–	–	–	*(98)*	*3*	1 847	–	–
Credit institutions	319	–	–	–	–	–	–	*(136)*	*3*	186	–	–
Financial assets at amortized cost	**27,156**	**14,160**	**22,740**	**15,456**	***(1,400)***	***1,400***	**–**	***(19,125)***	***509***	**26,637**	**12,690**	**21,569**
Debt securities valued at amortized cost	1,268	–	–	546	–	–	–	*(182)*	*3*	1,635	–	–
Institutions	1,218	–	–	546	–	–	–	*(182)*	*3*	1,585	–	–
Credit institutions	50	–	–	–	–	–	–	–	–	50	–	–
Loans and receivables at amortized cost	25,888	14,160	22,740	14,910	*(1,400)*	*1,400*	–	*(18,943)*	*506*	25,002	12,690	21,569
Central banks	3,700	–	–	10,928	–	–	–	*(3,671)*	*27*	10,984	–	–
Institutions	4,431	–	–	824	–	–	–	*(1,335)*	*50*	3,970	–	–
Credit institutions	3,498	–	115	620	*(236)*	*236*	–	*(3,273)*	*87*	682	249	116
Other financial institutions	20	–	3	6	–	–	–	*(21)*	*1*	6	–	3
Corporations	14,239	14,160	22,622	2,532	*(1,164)*	*1,164*	–	*(10,643)*	*341*	9,360	12,441	21,450
Granted loan commitments total	**1,077**	**625**	**–**	**4,828**	***(54)***	***54***	**–**	***(1,516)***	***(38)***	**4,921**	**55**	**–**
Institutions	–	–	–	2,102	–	–	–	–	*(15)*	2,087	–	–
Credit institutions	22	–	–	70	*(54)*	*54*	–	*(22)*	*1*	16	55	–
Corporations	1,055	625	–	2,656	–	–	–	*(1,494)*	*(24)*	2,818	–	–
Provided financial guarantees total	**1,084**	**–**	**637**	**252**	***(24)***	***24***	**–**	***(821)***	***(18)***	**957**	**24**	**153**
Other financial institutions	13	–	–	–	–	–	–	*(13)*	–	–	–	–
Corporations	1,071	–	637	252	*(24)*	*24*	–	*(808)*	*(18)*	957	24	153

(CZK'm)												2018
												IFRS 9
	Accumulated depreciation											
				Movements during the year								
	Balance at 1.1.2018			Transfers to (from)						Balance at 31.12.2018		
	Stage 1	Stage 2	Stage 3	Newly bought/ granded	Stage 1	Stage 2	Stage 3	Sold/ paid	Exchange differences	Stage 1	Stage 2	Stage 3
Debt securities at fair value recognized in the OCI	**–**	**–**	**–**	***–***	***–***	***–***	***–***	***–***	***–***	**–**	**–**	**–**
Financial assets at amortized cost	**(17)**	**(108)**	**(6 621)**	***(723)***	***30***	***(30)***	***–***	***314***	***(16)***	**(12)**	**(133)**	**(7,026)**
Debt securities valued at amortized cost	–	–	–	*–*	*–*	*–*	*–*	*–*	*–*	–	–	–
Loans and receivables at amortized cost	(17)	(108)	(6,621)	*(723)*	*30*	*(30)*	*–*	*314*	*(16)*	(12)	(133)	(7,026)
Central banks	–	–	–	*(9)*	*–*	*–*	*–*	*8*	*–*	(1)	–	–
Institutions	–	–	–	*(9)*	*–*	*–*	*–*	*3*	*–*	(6)	–	–
Credit institutions	(2)	–	(115)	*(10)*	*–*	*–*	*–*	*12*	*(1)*	–	–	(116)
Other financial institutions	(10)	–	(3)	*(4)*	*–*	*–*	*–*	*14*	*–*	–	–	(3)
Corporations	(5)	(108)	(6,503)	*(691)*	*30*	*(30)*	*–*	*277*	*(15)*	(5)	(133)	(6,907)
Granted loan commitments total	**(3)**	**–**	**–**	***(15)***	***–***	***–***	***–***	***12***	***1***	**(5)**	**–**	**–**
Institutions	–	–	–	*(1)*	*–*	*–*	*–*	*–*	*–*	(1)	–	–
Credit institutions	–	–	–	*(4)*	*–*	*–*	*–*	*4*	*–*	–	–	–
Corporations	(3)	–	–	*(10)*	*–*	*–*	*–*	*8*	*1*	(4)	–	–
Provided financial guarantees total	**(5)**	**–**	**(118)**	***(18)***	***–***	***–***	***–***	***101***	***(1)***	**(7)**	**–**	**(34)**
Corporations	(5)	–	(118)	*(18)*	*–*	*–*	*–*	*101*	*(1)*	(7)	–	(34)

(CZK'm)													2018
													IFRS 9
	Carrying value of exposure (netto)												
				Movements during the year									
	Balance at 1.1.2018				Transfers to (from)						**Balance at 31.12.2018**		
	Stage 1	Stage 2	Stage 3	Newly bought/ granded	Stage 1	Stage 2	Stage 3	Sold/ paid	Exchange differences		Stage 1	Stage 2	Stage 3
Debt securities at fair value recognized in the OCI	**2,136**	**–**	**–**	**125**	**–**	**–**	**–**	**(234)**	**6**		**2,033**	**–**	**–**
Institutions	1,817	–	–	125	–	–	–	(98)	3		1,847	–	–
Credit institutions	319	–	–	–	–	–	–	(136)	3		186	–	–
Financial assets at amortized cost	**27,139**	**14,052**	**16,119**	**14,733**	**(1,370)**	**1,370**	**–**	**(18,811)**	**493**		**26,625**	**12,557**	**14,543**
Debt securities valued at amortized cost	1,268	–	–	546	–	–	–	(182)	3		1,635	–	–
Institutions	1,218	–	–	546	–	–	–	(182)	3		1,585	–	–
Credit institutions	50	–	–	–	–	–	–	–	–		50	–	–
Loans and receivables at amortized cost	25,871	14,052	16,119	14,187	(1,370)	1,370	–	(18,629)	490		24,990	12,557	14,543
Central banks	3,700	–	–	10,919	–	–	–	(3,663)	27		10,983	–	–
Institutions	4,431	–	–	815	–	–	–	(1,332)	50		3,964	–	–
Credit institutions	3,496	–	–	610	(236)	236	–	(3,261)	86		682	249	–
Other financial institutions	10	–	–	2	–	–	–	(7)	1		6	–	–
Corporations	14,234	14,052	16,119	1,841	(1,134)	1,134	–	(10,366)	326		9,355	12,308	14,543
Granted loan commitments total	**1,077**	**625**	**–**	**4,828**	**(54)**	**54**	**–**	**(1,516)**	**(38)**		**4,921**	**55**	**–**
Institutions	–	–	–	2,102	–	–	–	–	(15)		2,087	–	–
Credit institutions	22	–	–	70	(54)	54	–	(22)	1		16	55	–
Corporations	1,055	625	–	2,656	–	–	–	(1,494)	(24)		2,818	–	–
Provided financial guarantees total	**1,084**	**–**	**637**	**252**	**(24)**	**24**	**–**	**(821)**	**(18)**		**957**	**24**	**153**
Other financial institutions	13	–	–	–	–	–	–	(13)	–		–	–	–
Corporations	1, 071	–	637	252	(24)	24	–	(808)	(18)		957	24	153

Loans and receivables

(CZK'm)			2018			2017
	Loans and other receivables			Loans and other receivables		
	Banks	Customers	**Total**	Banks	Customers	**Total**
Neither past due nor impaired	241	23,477	**23,718**	308	22,140	**22,448**
Past due but not impaired	7	2,295	**2,302**	–	1	**1**
Impaired	116	21,447	**21,563**	115	33,311	**33,426**
	364	47,219	**47,583**	423	55,452	**55,875**
Adjustments total	(116)	(7,048)	**(7,164)**	(115)	(6 512)	**(6 627)**
Total loans	**248**	**40,171**	**40,419**	**308**	**48,940**	**49,248**
Other receivables neither past due nor impaired	11,666	6	**11,672**	3,588	19	**3,607**
Other impaired receivables	–	6	**6**	–	5	**5**
	11,666	12	**11,678**	3,588	24	**3,612**
Adjustments total	**(1)**	(6)	(7)	–	(2)	**(2)**
Total loans and receivables at amortized cost (2018 – IFRS 9) Loans and receivables (2017 – IAS 39)	**11,913**	**40,177**	**52,090**	**3,896**	**48,962**	**52,858**
Total undamaged to maturity	11,907	23,483	**35,390**	3,896	22,159	**26,055**
Total overdue undamaged	7	2,295	**2,302**	–	1	**1**
Total net impaired	(1)	14,399	**14,398**	–	26,802	**26,802**
	11,913	**40,177**	**52,090**	**3,896**	**48,962**	**52,858**

Loans and receivables 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 highquality collateral it may not be impaired at all.

(CZK'm)				2018			2017
		Loans and other receivables			Loans and other receivables		
	internal rating	Banks	Customers	**Total**	Banks	Customers	**Total**
High credit quality	2	9	–	**9**	**–**	**–**	**–**
Very good credit quality	3	–	827	**827**	**–**	7	**7**
Good credit quality	4	–	5,488	**5,488**	3	13,429	**13,432**
Quality requires attention	5	–	14,095	**14,095**	–	3,242	**3,242**
Vulnerable	6	231	2,147	**2,378**	292	1,989	**2,281**
Unsatisfactory	7	1	51	**52**	11	2	**13**
Default of project	D	–	–	**–**	–	3,471	**3,471**
Non-rated	–	–	869	**869**	2	–	**2**
Loans Gross		**241**	**23,477**	**23,718**	**308**	**22,140**	**22,448**
ADJ for expected losse		–	(11)	(11)	–	–	–
Total credits		**241**	**23,466**	**23,707**	**308**	**22,140**	**22,448**
Highest credit quality	1	10,984	6	**10,990**	31	–	**31**
High credit quality	2	599	–	**599**	2 298	15	**2,313**
Very good credit quality	3	16	–	**16**	971	–	**971**
Good credit qualit	4	68	–	**68**	288	2	**290**
Quality requires attentiot	5	–	–	**–**	–	1	**1**
Non-rated	–	–	–	**–**	–	1	**1**
Other receivables Gross		**11,667**	**6**	**11,673**	**3,588**	**19**	**3,607**
ADJ for expected losse		(1)	(1)	**(2)**	**–**	**–**	**–**
Other receivables total		**11,666**	**5**	**11,671**	**3,588**	**19**	**3,607**
Receivables undamaged to maturity total		**11,907**	**23,471**	**35,378**	**3,896**	**22,159**	**26,055**

Loans past due but not impaired

(CZK'm)			2018			2017
	Loans			Loans		
	Banks	Customers	Total	Banks	Customers	Total
Past due by 30 days	6	–	**6**	–	–	**–**
Past due 30–90 days	1	2 295	**2 296**	–	–	**–**
Past due 90–180 days	–	–	**–**	–	–	**–**
Past due more than 180 day	–	–	**–**	–	1	**1**
	7	2 295	**2 302**	–	1	1
ADJ for expected losses	–	(44)	**–**	–	–	–
Receivables not impaired after maturity	**7**	**2 251**	**2 302**	**–**	**1**	**1**
Fair value of collateral	1	2 292	2 293	–	–	–

Impaired loans

(CZK'm)		2018			2017	
		Loans			Loans	
	Banks	Customers	Total	Banks	Customers	Total
Individually impaired loans	116	21,447	**21,563**	115	33,311	**33,426**
Adjustments	(116)	(6,904)	**(7,020)**	(115)	(6,512)	**(6,627)**
Receivables impaired total	**–**	**14,543**	**14,543**	**–**	**26,799**	**26,799**
Fair value of collateral	–	25,737	25,737	–	26,525	26,525

Restructured loans

(CZK'm)		2018			2017	
		Loans			Loans	
	Banks	Customers	Total	Banks	Customers	Total
Restructured loans	–	10,986	**10,986**	–	6,347	**6,347**
Unexpended credit commitments to customers	–	–	–	–	–	–

Restructured loans and receivables include balances whose terms have been renegotiated and that would otherwise be past due or impaired. The loans reported as of 31 December 2018 as Unimpaired past due and Impaired loans are included in the amount of CZK 14,619 million (31 December 2017: CZK 12,695 million), which were restructured over the term of their lives but again demonstrate those characteristics.

Geographic structure of loans and receivables

	2018		2017	
	(CZK'm)	(%)	(CZK'm)	(%)
Bulgaria	–	–	1,285	2.43
Czech Republic	12,236	23.49	3,534	6.69
Denmark	7	0.01	23	0.04
France	423	0.81	453	0.86
Germany	–	–	393	0.74
Netherlands	1	–	2	0.01
Slovak Republic	10,961	21.04	12,933	24.47
United Kingdom	157	0.30	694	1.31
The European Union's total	**23,785**	**45.65**	**19,317**	**36.55**
Azerbaijan	5,238	10.05	6,096	11.53
Belarus	45	0.09	169	0.32
Montenegro	51	0.10	110	0.21
China	9	0.02	–	–
Indonesia [1)]	826	1.59	(17)	(0.03)
Jordan	–	–	3	0.01
Kazakhstan	–	–	6	0.01
Cuba	236	0.45	282	0.53
Kyrgyzstan	3	0.01	5	0.01
Mauritius	118	0.23	169	0.32
Russia	10,185	19.55	11,968	22.64
United States of America	25	0.05	27	0.05
United Mexican States	2	–	4	0.01
Serbia	16	0.03	52	0.10
Turkey [1]	11,551	22.18	14,605	27.63
Ukraine[1]	–	–	62	0.11
Total loans and receivables at amortized cost (2018 - IFRS 9) **Loans and receivables (2017 – IAS 39)**	**52 090**	**100,00**	**52 858**	**100,00**

ad 1) 2017 - Pre-accepted fees for undrawn credit, which are part of the effective interest rate.

Industry structure of loans and receivables

	2018		2017	
	(CZK'm)	(%)	(CZK'm)	(%)
Agriculture, forestry and fishing	–	0.00	286	0.54
Processing industry	7,484	14.37	9,457	17.89
Production and distribution electricity, gas, heat and air	25,003	48.00	31,037	58.72
Building industry	808	1.55	975	1.85
Wholesale and retail trade; repairs vehicleel	168	0.32	180	0.34
Transport and warehousing	2,269	4.36	1,926	3.64
Banking and insurance industry	11,920	22.88	3,916	7.41
Administrative and supporting activity	474	0.91	649	1.23
Public administration, defence	3,964	7.61	4,432	8.38
Total loans and receivables at amortized cost (2018 – IFRS 9)				
Loans and receivables (2017 – IAS 39)	**52,090**	**100.00**	**52,858**	**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 Stage III category. If the existence or the influence of the factors that led to this classification of the financial asset cease, the credit committee can adopt the decision to transfer the asset to Stage II. If the newly set terms for such exposure are met for no less than 6 months, the exposure may be reclassified to Stage I.

Quantitative information for exposures with forbearance

(CZK'm)							2018
	Forbearance exposure						
	To maturity, without fail	After the due date, without failures	Failure	Forbearance total	Adjustments	**Forbearance netto**	Collateral
Non-financial corporations	11,060	–	15,603	26,663	(944)	**25,719**	
Total	**11,060**	**–**	**15,603**	**26,663**	**(944)**	**25,719**	**–**

(CZK'm)							2017
	Forbearance exposure						
	To maturity, without fail,	After the due date, without failures	Failurem	Forbearance total	Less: allowance for impairment	**Forbearance netto**	Collateral
Nefinanční podniky	6,347	–	15,898	22,245	(771)	**21,474**	**21,391**
Celkem	**6,347**	**–**	**15,898**	**22,245**	**(771)**	**21,474**	**21,391**

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

(CZK'm)			**2018**			**2017**
	Loans and receivables to banks and customers	Forbearance netto	Share of loans and receivables	Loans and receivables to banks and customersy	Forbearance netto	Share of loans and receivables
Government Institutions	3,964	–	0.0%	4,432	–	0.0%
Credit institutions	248	–	0.0%	308	–	0.0%
Other financial institutions	–	–	0.0%	–	–	0.0%
Non-financial corporations	36,207	25,719	71.0%	44,508	21 474	48.2%
Total exposure	**40,419**	**25,719**	**63.6%**	**49,248**	**21 474**	**43.6%**

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

(CZK'm)		**2018**		**2017**
	Profit/Loss	Write-off	Profit/Loss	Write-off
Non-financial corporations	(114)	(410)	79	(381)
Total	**(114)**	**(410)**	**79**	**(381)**

(c) Market risk

The Bank is exposed to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank uses GAP analyses to track the spread of interest rate risk in individual currencies over time, estimating the impact of interest rate changes on 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 shock market change scenarios (according to the Basel Committee on Banking Supervision in April 2016). The Board sets limits on the value of risk that may be accepted, from which all market risks limits are derived. Actual utilisation of the limits is monitored on a daily basis by risk management. The EVE method, which calculates the maximum possible change in the Bank's economic value in applying standard shock scenarios of changes in the interest rate and exchange rate. The Bank has not been exposed to risks stemming from nonlinear instruments. All EVE changes are summarised in the table below.

EVE values

(CZK'm)		**12 months to 31 December 2018**			**12 months to 31 December 2017**	
ΔEVE	Average	High	Low	Average	High	Low
Interest rate risk	148.60	215.03	73.37	115.89	165.96	81.04
Foreign exchange risk	5.00	55.94	0.22	4.01	43.39	0.28
Tota ΔEVE	153.60	217.62	74.91	119.90	169.51	84.04

(CZK'm)		**31 December 2018**	**31 December 2017**
ΔEVE			
Interest rate risk	Parallel up	187.04	81.64
	Parallel down	21.40	47.90
	Short rate up	74.49	41.53
	Short rate down	22.22	34.52
	Steepener	32.66	2.64
	Flattener	33.38	59.32
	Maximum	**187.04**	**81.64**
Foreign exchange risk	Parallel up	0.27	2.41
	Parallel down	0.25	0.00
	Maximum	**0.27**	**2.41**
Total ΔEVE		**187.32**	**84.04**

The Bank conducts quarterly stress testing of the impact of material changes in financial markets on the level of market exposure. Under the EVE method, so-called stress scenarios based on standard shock scenarios for day-to-day management of interest rate and currency risk are used to modify them to capture an even greater movement of 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 limits are defined to mitigate potential exposure. If the total net 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 2018					
ASSETS					
Cash and cash with the central bank and other deposits repayable on demand	27	27	1	5	60
Debt securities at fair value recognized in the OCI	1,495	537	–	1	2,033
Financial assets at amortised cost	13,246	37,913	2,548	19	53,726
Debt securities valued at amortized cost	1,216	420	–	0	1,636
Loans and receivables at amortized cost	12,030	37,493	2,548	19	52,090
Hedging derivatives	–	–	3	–	3
Equipment	28	–	–	–	28
Intangible assets	54	–	–	–	54
Other assets, including tax	194	1 346	2	–	1,542
Total assets	**15,044**	**39,823**	**2,554**	**25**	**57,446**
LIABILITIES					
Derivatives for trading	118	2	–	–	120
Financial liabilities in amortized costs	7,714	35,914	2,360	22	46,010
Hedging derivatives	–	111	–	–	111
Other liabilities, including tax	3,789	143	204	1	4,137
Total liabilities	**11,621**	**36,170**	**2,564**	**23**	**50,378**
Net on-balance sheet items	3,423	3,653	(10)	2	7,068
Currency forward	3,675	–	13	–	3,688
Net currency position	**7,098**	**3,653**	**3**	**2**	**10,756**
At 31 December 2017					
Total asset	7,522	51,790	3,441	2	62,755
Total liabilities	12,168	40,429	3,444	–	56,041
Net on-balance sheet position	(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**

(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 risk is managed using interest rate GAP analysis, analysis of the change in net interest income (NII) and change in EVE. For NII and EVE change indicators 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 in a favourable time.

The Bank's liquidity risk management uses its own methods for measuring and monitoring net cash flows and liquidity position. The difference between the inflow and outflow of funds are measured liquidity gap analysis, which determines the liquidity positions for different time baskets (gaps). A liquidity in the currency structure of CZK, EUR, USD and the total of the Bank is monitored at several levels of market behaviour at the level of the standard and the alternative scenario and three stress scenarios that quantify the impact on liquidity in the event of a crisis names combined market crisis and crisis. The scenarios are the basis for regular analysis of survival time. The bank has set a minimum requirement for the survival of 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 run any response to an identified situation. Sufficient liquidity is controlled by a system of limits and is managed with the help of on-balance sheet (eg. cash, liquid securities at FVOCI, issued bonds, loans taken from banks) and off-balance sheet transactions (FX swaps, currency interest rate swaps). According to the current development of liquidity risk, financial markets etc. the Bank regularly reviews the plan fundraising. The Bank has access to diversified sources of finance. These sources comprise issued bonds, bilateral or club loans from domestic as well as international financial markets and other deposits received from other banks and customers. This diversification gives flexibility to the Bank and limits its dependence on one source of finance. On a regular basis, the Bank assesses the liquidity risk, predominantly by monitoring changes in the financing structure. 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 out the minimum required level of 100% for 2018. As of 31 December 2018 the Bank reported LCR of 371% (as of 31 December 2017 – standard 80%; LCR 3034%).

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

Maturity of non-derivative financial liabilities

(CZK'm)	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31 December 2018						
Financial liabilities at amortized cost due to banks	4,095	15	65	1,760	–	**5,935**
Financial liabilities at amortized cost due to clients	310	55	533	39	228	**1,165**
Debt securities issued at amortized cost	45	6,821	723	26,785	6,281	**40,655**
Total financial liabilities at amortized cost	**4,450**	**6,891**	**1,321**	**28,584**	**6,509**	**47,755**
Loan commitments	1,398	176	398	3 004	–	**4,976**
31 December 2017						
Financial liabilities at amortized cost due to banks	83	9	66	1,806	–	**1,964**
Financial liabilities at amortized cost due to clients	447	41	900	32	49	**1,469**
Debt securities issued at amortized cost	45	419	13,427	31,405	8,866	**54,162**
Total financial liabilities at amortized cost	**575**	**469**	**14,393**	**33,243**	**8,915**	**57,595**
Loan commitments	169	751	718	64	–	**1,702**

Maturity of derivative financial liabilities

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

(CZK'm)	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31 December 2018						
Hedging derivatives	(2)	(49)	(40)	(24)	–	**(115)**
31 December 2017						
Hedging derivatives	(2)	(52)	(66)	(118)	–	**(238)**

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

(CZK'm)	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31 December 2018						
Foreign exchange derivatives for trading						
outflow	(13)	–	–	–	–	**(13)**
inflow	13	–	–	–	–	**13**
Cross currency swaps for trading						
outflow	–	–	(19)	(3,886)	–	**(3,905)**
inflow	–	–	104	3,830	–	**3,934**
Total outflow	**(13)**	**–**	**(19)**	**(3,886)**	**–**	**(3,918)**
Total inflow	**13**	**–**	**104**	**3,830**	**–**	**3,947**
31 December 2017						
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**

(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 value (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 value..

(mil. Kč)	2018	2017	2018	2017
	Carrying value		Fair value	
FINANCIAL ASSETS				
Balances with central bank	10,983	3,719	10,983	3,719
Loans to banks	930	3,896	1,015	3,717
Loans to other entities	40,177	48,962	42,804	52,722
Financial instruments held-to-maturity	n/a	1,145	n/a	1,210
Debt securities valued at amortized cost	1,636	n/a	1,950	n/a
INANCIAL LIABILITIES				
Financial liabilities at amortized cost due to banks	5,915	1,936	5,927	1,944
Financial liabilities at amortized cost due to clients	965	1,462	949	1,453
Debt securities in issue	39,130	51,914	33,146	46,733
Loan commitments giveny	4,976	1,702	–	–

Issued debt securities, government and central bank debt securities are all 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 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 customers

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

The estimated fair value of fixed interest-bearing deposits and other borrowings without 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 issued, market valuation based on market quotation (bid price provided by Reuters) isused.

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)	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Derivatives for trading	–	–	–	–
Debt securities at fair value recognized in the OCI	2,033	–	n/a	n/a
Financial instruments available-for-sale	n/a	n/a	2,255	–
Hedging derivatives	–	3	–	2
Total	**2,033**	**3**	**2,255**	**2**
Financial liabilities held for trading	–	120	–	64
Hedging derivatives	–	111	–	313
Total	**–**	**231**	**–**	**377**

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

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 in the statement of financial position certain financial instruments, 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)						2018
	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)	3	–	**3**	–	–	3
Positive market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total assets	**3**	**–**	**3**	–	–	3
Negative market values from derivatives (enforceable)	231	–	**231**	–	(96)	135
Negative market values from derivatives (non-enforceable)	–	–	**–**	–	–	–
Total liabilities	**231**	**–**	**231**	–	(96)	135

(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

(h) Capital management

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

The Bank uses the standard approach based on an external rating to calculate the capital requirement for the credit risk of the investment portfolio, i.e. calculate risk-weighted exposures. The risk weighting is based on the exposures category and credit quality. Credit quality is determined based on the external rating, which was set by the rating agency registered in 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 institution 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 created and uses a system of internally set capital (SVSK) in order to fulfil its legal obligations in the area of planning and continuously maintaining internally set capital in the amount, structure and distribution, so that the risks, which could threaten the Bank, are sufficiently covered.

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

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

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

In 2018 and 2017 the Bank met all regulatory requirements for capital adequacy.

The Bank has determined regulatory capital according to 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)	2018	2017
Paid-up share capital registered in the commercial register	5,000	5,000
Reserve funds	1,849	1,594
The accumulated other comprehensive income	(8)	(137)
Deductible items from the original equity – intangible assets	(340)	(302)
Capital adjustment due to the use of prudential filters	33	190
Other transitional adjustment of capital	286	247
Other deductions from CET1 capital (implementation of IFRS 9)	(127)	–
Initial capital (Tier 1)	**6,693**	**6,592**
Regulatory capital	**6,693**	**6,592**

Effect of the adoption of IFRS 9 on regulatory requirements

The Bank has decided not to apply the transitional provisions specified in Article 473a of EU Directive No 575/2013 to mitigate the impact of the introduction of IFRS 9, methods of expected credit losses and hence it captures the full impact of IFRS 9 (expected credit losses) in profit, equity and leverage ratios.

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 decreased by CZK 127 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 financial assets, loan commitments, guarantees and contractual assets

To measure the expected credit loss, a system was developed that included workflows, models and inputs into the information system. Critical areas include methodologies for default, significant increase in credit risk (SICR), probability of default (PD), credit exposure at default (EAD) and loss given default (LGD) and macroeconomic models. The Bank continuously checks and verifies these models and inputs into information systems. For the purposes of determining impairment losses, a system is in place for ongoing and periodic monitoring of credit exposures and reporting of changes in the credit risk to the management.

The assessment of a significant increase in credit risk leading to the recognition of allowances and provisions in the amount of lifetime expected credit loss is subject to expert estimates and assessment by the Bank's management. This assessment compares the change in credit risk at initial recognition and at the reporting date. The Bank uses various observable and verifiable events that are available without incurring undue costs to indicate prospects for the future.

(b) Assessment of the business model and contractual cash flows

The Bank's business model

The Bank's business model governs the classification of financial assets. In stating the Bank's business model, the Bank's management worked with the frequency, timing and value of transactions, cash flow characteristics, and expectations related to future sales.

For instruments classified as AC, the objective is to collect cash flows that are the principal and interest. It is assumed that sales will occur rarely and in insignificant volumes, or only in situations such as:
(a) Reduction in the credit quality of the asset's issuer, sale of assets with increased credit risk;
(b) Sales shortly (3 months) before maturity;

(c) Unforeseen urgent financial needs of the export bank as a result of the occurrence of an extraordinary event defined in the emergency plan and/or danger to the liquidity management limits under stress scenarios, i.e. the securing of the Bank's financial needs in the event of an emergency situation and medium-term liquidity problems;
(d) Compliance with regulatory limits for credit risk management, if these sales are infrequent, or they are frequent but their value is not material taken separately/together.

For financial assets at fair value through other comprehensive income, the intentions of the business model are met by collecting principal and interest as well as by sales. Sales may also occur in the event of:
(e) Reinvesting the asset in order to adjust the portfolio's return profile or adjust the cost of holding the liquidity buffer;
(f) Adjustments to the maturity, duration or risk profile of the portfolio with respect to its diversification or currency structure;
(g) Securing the financial needs of the export bank in the event of an emergency crisis situation and/or threats to liquidity management limits under stress scenarios and temporary or short-term liquidity problems;
(h) A reduction in the need to hold the liquidity buffer with respect to compliance with the LCR regulatory limits or acceptable liquidity risk levels for measuring the survival time;
(i) Verifying the marketability/liquidity of the asset on the market or testing the functionality of the emergency plan for extraordinary situations in managing the liquidity of the export bank;
(j) As part of the provision of syndication products.

Contractual cash flows

When deciding on the classification of financial assets, it is important to assess whether the contract determines dates for specific cash flow that consist solely of principal and interest payments (SPPI). In order to assess whether the contractual cash flows are in line with the basic credit arrangement, a procedure has been developed that is performed by the Bank at initial recognition. Exceptional deviations from the standard model of payments of principal and interest for classifying an asset as AC or FVOCI are assessed by the ALCO.

Instruments that do not meet the SPPI test are measured at fair value through profit or loss (FVTPL).

(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

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

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)			2018			2017
	circle 001	circle 002	**Total**	circle 001	circle 002	**Total**
Interest and similar income	553	1,538	**2,091**	654	1,399	**2,053**
Interest expense and similar charges	(29)	(1,093)	**(1,122)**	(15)	(1,397)	**(1,412)**
Impairment losses on loans	7	(374)	**(367)**	(25)	77	**52**
Creation of reserves or their (-) reversal	–	81	**81**	–	(102)	**(102)**
Subsidy income	–	–	**–**	–	–	**–**
Loss/profit before income tax	152	71	**223**	239	20	**259**
Income tax expense	129	–	**129**	(2)	–	**(2)**
Profit for the year	280	72	**352**	237	20	**257**
Total loans and receivables at amortized cost (2018 – IFRS 9)						
Loans and receivables (2017 – IAS 39)	9,036	43,054	**52,090**	2,341	50,517	**52,858**
Total assets	11,974	45,472	**57,446**	8,109	54,646	**62,755**
Financial liabilities at amortized cost	4,313	41,697	**46,010**	456	54,856	**55,312**
Total liabilities and equity	12,008	45,438	**57,446**	7,604	55,151	**62,755**

The Bank has three clients whose share in the interest rate income of set 001 is over 10% of the segment, and two clients whose share of the interest rate income of set 002 is over 10% of the segment.

Revenue from ordinary activities of the Bank in the geographic breakdown

(CZK'm)			2018			2017
	Interest and similar income	Fee and commisions income	**Total**	Interest and similar income	Fee and commisions income	**Total**
Bulgaria	231	–	**231**	61	–	**61**
Czech Republic	214	21	**235**	147	27	**174**
France	3	–	**3**	3	–	**3**
Cyprus	–	–	**–**	43	–	**43**
Luxembourg	3	–	**3**	24	–	**24**
Netherlands	1	–	**1**	1	–	**1**
Austria	–	–	**–**	1	–	**1**
Slovak Republic	312	–	**312**	329	–	**329**
United Kingdom	8	–	**8**	2	–	**2**
The European Union's	**772**	**21**	**793**	**611**	**27**	**638**
Azerbaijan	140	–	**140**	181	–	**181**
Belarus	6	–	**6**	10	–	**10**
Montenegro	1	–	**1**	2	–	**2**
Georgia	–	–	**–**	137	–	**137**
India	–	–	**–**	–	1	**1**
Indonesia	20	–	**20**	4	–	**4**
Iraq	–	1	**1**	–	1	**1**
Cuba	3	–	**3**	2	–	**2**
Mauritius	6	–	**6**	7	–	**7**
Nepal	–	–	**–**	3	–	**3**
Russia	494	–	**494**	618	–	**618**
United States of America	1	–	**1**	2	–	**2**
Serbia	2	–	**2**	3	–	**3**
Switzerland	–	–	**–**	1	–	**1**
Turkey	645	–	**645**	464	–	**464**
Ukraine	1	–	**1**	8	–	**8**
Total interest income and fees	**2,091**	**22**	**2,113**	**2,053**	**29**	**2,082**

6 / NET INTEREST INCOME

(CZK'm)	2018	2017
Interest income from loans to banks	4	3
Interest income from loans to clients 1 870 1 925	1,870	1,925
of which: Interest on impaired loans	*387*	*733*
Interest income from interbank deposits	36	16
Interest income from CNB loans – repos	90	8
Interest income from loans and receivables at amortized cost	2,000	1,952
Interest income from available-for-sale securities	n/a	45
Interest income from financial investments held-to-maturity – securities	n/a	39
Interest on debt securities at fair value recognized in the OCI	43	n/a
Interest on debt securities at amortized cost	45	n/a
Interest on other assets – collateral	1	1
Interest on liabilities	–	16
Gains on hedging interest derivative instruments	2	–
Other interest earnings	91	101
Interest and similar income	**2,091**	**2,053**
Interest expense from received bank loans	(59)	(51)
Interest expense from term deposits	(11)	(4)
Interest expense from checking accounts	(1)	–
Interest expense from interbanking operations	(16)	–
Interest expense from issued bonds	(872)	(1,064)
Interest expense from financial liabilities in amortized costs	(959)	(1,119)
Interest on assets	(37)	(73)
Losses on hedging interest derivative instruments	(126)	(220)
Interest expense and similar charges	**(1,122)**	**(1,412)**
Net interest income	**969**	**641**

Interest on assets represents interest expenses from financial assets and interest on liabilities represents interest income from financial liabilities resulting from negative interest rates. In 2018 the Bank realised a significant compensation of CZK 582 million for the early repayment of a long-term loan.

Interest expense and interest income are measured using the effective interest rate except for interest onderivatives.

7 / FEE AND COMMISSION INCOME

(CZK'm)	2018	2017
Fees and commisions from payments	1	2
Fees and commisions from guarantees	21	27
Fee and commisions income	**22**	**29**
Fees and commisions from clearing and settlement	(1)	(1)
Fees for guarantees	(7)	(8)
Fee for security operations	(1)	(1)
Fees and commisions for rating	(5)	(8)
Fee and commisions expense	**(14)**	**(18)**
Net fee and commission income	**8**	**11**

8 / NET PROFIT FROM FINANCIAL OPERATIONS

Amounts due from the state budget and income from financial operations

(CZK'm)	2018	2017
STATE SUBSIDY TO STATE EXPORT PROMOTION under international rules (OECD Consensus)		
At 1 January	**–**	**–**
Return (receipt) of state subsidy	–	–
Change in receivables from state budget	–	–
At 31 December	**–**	**–**

Profit from financial operations

(CZK'm)	2018	2017
Subsidy income	–	–
Gains from operations with securities	1	15
Realized gains from financial assets and liabilities not carried at fair value through profit	1	15
Income from derivative transactions with interest rate instruments	–	2
Costs of derivative transactions with currency instruments	(290)	(8)
Income from derivative transactions with currency instruments	241	186
Net trading income/(expense)	(49)	180
The gains/(losses) of hedge accounting	(70)	480
Foreign exchange gains/(losses)	44	(607)
Net profit from financial operations, including state subsidy	**(74)**	**68**

9 / OPERATING COSTS

(#)	2018	2017
Number of employees	145	157
Average recorded number of employees	150	156
Board and Supervisory Board	8	11

(CZK'm)	Note	2018	2017
Salaries and emoluments		(162)	(157)
Social and health security costs		(51)	(50)
Other staff costs		(7)	(6)
Staff costs		(220)	(213)
Advertising		(4)	(5)
Advice		(7)	(3)
Information technology		(24)	(21)
Outsourcing		(1)	–
Rental		(17)	(16)
Fare		(4)	(7)
Contribution to the Guarantee of financial market		(12)	(15)
Other services immaterial		(9)	(9)
Other administrative expenses		(10)	(13)
Total administrative expenses		(308)	(302)
Software amortisation	18	(38)	(33)
Depreciation of long term tangible assets		(9)	(10)
Depreciation and amortization		(47)	(43)
Legal costs and control activities		(1)	(14)
Cost of recovery		(30)	(32)
Contractual fines and penalties		–	(1)
Value added tax		(15)	(18)
Other		(1)	(1)
Other operating expenses		(47)	(66)
Total operating costs		**(402)**	**(411)**

Staff costs include provisions for employee and management bonuses and other long-term employee benefits. During 2018, income of members of the Board of Directors and the Supervisory Board amounted to CZK 29 million (2017: CZK 22 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 results and other criteria in future years was (due to the use of a pro rata portion of the provision and the release of the residual balance of the provision from 2012 due to redundancy) decreased by CZK 5 million to CZK 37 million and the provision for social security and health insurance relating to these bonuses was increased by CZK 2 million to CZK 10 million. The provision for long-term employee benefits increased to CZK 2 million.

10 / IMPAIRMENT LOSSES ON LOANS

(CZK'm)	2018	2017
Creation of Provisions for Expected Losses – Stage 1	2	n/a
Creation of allowances for receivables to banks	2	–
Creation of Provisions for Expected Losses – Stage 1	(5)	n/a
Creation of individual allowances	(405)	20
Creation of allowances for receivables to clients	(410)	20
Utilisation and release of allowances on loans to customers	41	1,279
Receivables from clients written off	(1,429)	(5,431)
Claims from credit insurance on bad debts to customers – received indemnity	1,428	4,134
Claims from credit insurance on bad debts to customers – the other to ensure	1	50
Impairment losses on loans	**(367)**	**52**

In 2018, the bank cleansed its balance sheet for both insured and uninsured impaired loans. The item 'Claims from credit insurance on bad debts to customers – the other to ensure' includes extraordinary income of CZK 1 million (2017: CZK 50 million).

In 2018, the Bank reversed the provision for guarantees and issued credit commitments of CZK 81 million (2017: created provision of CZK 102 million).

11 / INCOME TAX

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

(CZK'm)	Note	2018	2017
Income tax payable		(128)	11
Deferred tax	23	(1)	(9)
Income tax expense		**(129)**	2
Expected tax 19% (2017: 19%)		(42)	(49)
Effects of non-taxable expenses		(167)	(541)
Effects of non-taxable income		120	736
Tax liability/tax loss for the accounting period		(89)	146
Income tax of the periods		128	(11)
Deferred tax		1	9
Unrelieved deferred tax asset due to tax loss		89	(146)
Income tax expense		**129**	**(2)**

Tax non-deductible expenses primarily include the write-off of receivables in the amount of CZK 569 million and the creation of non-deductible provisions for credit receivables of CZK 382 million. Tax non-deductible income primarily represents income from written-off receivables (insurance proceeds received) in the amount of CZK 606 million. Income arising from tax payable in the amount of CZK 128 million arose due to the additional income tax returns submitted for the years 2014 to 2016. The tax liability for the current reporting period was applied against the tax loss reported in 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.

For ECL calculation purposes all deposits included in cash equivalents are classified in Stage 1. The Bank recognised minimal, immaterial allowances for credit losses on cash and cash equivalents.

(CZK'm)	Note	2018	2017
Term deposits with central banks		n/a	3,699
Mandatory reserve deposits with central bank		26	20
Current accounts for other credit institutions		34	n/a
Cash and cash with the central bank and other deposits repayable on demand (2018)			
Cash and balances with central bank (2017)	13	60	3,719
Unprompted deposits with central banks	14	10,984	n/a
Unprompted deposits at other credit institutions	14	519	n/a
Current accounts with other banks	14	n/a	398
Other deposits at other credit institutions	14	n/a	2,176
Other deposits included in cash equivalents	13	11,503	2,574
Total cash and cash equivalents		**11,563**	**6,293**

13 / CASH AND BALANCES WITH THE CENTRAL BANK AND OTHER DEPOSITS PAYABLE ON DEMAND

(CZK'm)	Note	2018	2017
Term deposits with central banks included in cash equivalents		n/a	3 699
Mandatory reserve deposits with central bank		26	20
Current accounts at other credit institutions		34	n/a
Cash and cash with the central bank and other deposits repayable on demand (2018)			
Cash and balances with central bank (2017)		**60**	**3,719**

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

14 / LOANS AND OTHER RECEIVABLES

(CZK'm)	2018	2017
Loans to banks	11,913	3,896
Loans to other entities	40,177	48,962
Total loans and receivables at amortized cost (2018 – IFRS9)		
Loans and receivables (2017 – IAS39)	**52,090**	**52,858**
Remaining maturity:		
Short-term loans and receivables	12,976	4,433
Long-term loans and receivables	39,114	48,425

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

The original cost refund 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.

At the end of 2018, the Bank recorded receivables written off and in the process of recovery in the amount of CZK 8,926 million (CZK 8,330 million). Generally, these are receivables recovered with respect to the Bank's obligations under insurance contracts.

Loans to banks

(CZK'm)	Note	2018	2017
Unprompted deposits with central banks		10,984	n/a
Unprompted deposits at other credit institutions		519	n/a
Current accounts with other banks		n/a	397
Other deposits at other credit institutions included in cash equivalents		n/a	2,177
Included in cash equivalent	**12**	**11,503**	**2,574**
Other deposits at other credit institutions not included in cash equivalents		163	1,014
Loans to other banks		364	423
Loans and advances to credit institutions total		**12,030**	**4,011**
Total allowances		(117)	(115)
Total loans to banks		**11,913**	**3,896**
Remaining maturity:			
Short-term loans and receivables towards credit institutions		11,879	3,671
Long-term loans and receivables towards credit institutions		34	225

Allowances on loans and receivables to banks

(CZK'm)	2018	2017
Balance at 1 January	**(118)**	**(122)**
Allowance releases	1	–
Net movement in allowances	1	–
Foreign exchange differences	–	7
Balance at 31 December	**(117)**	**(115)**

As a result of IFRS 9 application, allowances increased as of 1 January 2018 by CZK 3 million compared to 31 December 2017.

Loans to other entities

(CZK'm)	2018	2017
LOANS TO CORPORATE ENTITIES		
Pre-export funding	1,226	1,438
Export funding	45,686	49,315
Invesment	176	4,609
For bank guaranteey	4	6
Trade receivables	66	31
For factoring	73	77
Loans and advances to customers without compromising total	47,231	55,476
Allowance for loan impairment	(7,054)	(6,514)
Total loans to corporate entities	**40,177**	**48 962**
Remaining maturity:		
Short-term loans and receivables	1,096	762
Long-term loans and receivables	39,081	48,200

As of 31 December 2017, receivables that were reported as not divided by sector in the preceding period were reclassified to Trade receivables in the gross amount of CZK 24 million (net: CZK 22 million).

Allowances for impairment on loans and receivables to other entities

(CZK'm)	2018	2017
At 1 January	**(6,629)**	**(8,198)**
Allowance increase	(723)	(149)
Utilisation for write offs	41	1,278
Allowance release	315	167
Net movement in allowances	(367)	1,296
Foreign exchange differences	(58)	388
At 31 December	**(7,054)**	**(6,514)**

As a result of IFRS 9 application, allowances increased as of 1 December 2018 by CZK 116 million compared to 31 December 2017.

15 / DERIVATIVE FINANCIAL INSTRUMENTS

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

The Bank uses these derivative financial instruments:

Total derivatives

(CZK'm)	Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 2018				
Derivatives held for trading	3,688	3,872	–	120
Hedging derivatives	2,668	2,668	3	111
Total derivatives	**6,356**	**6,540**	**3**	**231**
Remaining maturity:				
Short-term derivatives held for trading	13	13	–	–
Long-term derivatives held for trading	3,675	3,859	–	120
Short-term hedging derivatives	2,283	2,283	3	78
Long-term hedging derivatives	385	385	–	33
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

Derivatives held for trading

(CZK'm)	Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 2018				
INTEREST RATE DERIVATIVES				
Cross-currency interest rate swaps	3,688	3,872	–	120
Total derivatives held for trading	**3,688**	**3,872**	**–**	**120**
31 December 2017				
INTEREST RATE DERIVATIVES				
Cross-currency interest rate swaps	3,675	3,831	–	64
Total derivatives held for trading	**3,675**	**3,831**	**–**	**64**

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

Hedging fair value derivatives

In accordance with the rules of the use of hedge accounting 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 the loans granted in EUR or USD (convert fixed interest payments into variable).

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

(CZK'm)	Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 2018				
INTEREST RATE DERIVATIVES				
Interest rate swaps	386	386	–	33
Total hedging derivatives	**386**	**386**	**–**	**33**
31 December 2017				
INTEREST RATE DERIVATIVES				
Interest rate swaps	1,383	1,383	–	60
Total hedging derivatives	**1,383**	**1,383**	**–**	**60**

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 subject to variable interest and bond issues with variable coupons). Through interest rate swaps it transfers the variable interest payments of the Bank's funds to fixed ones, thus hedging the cash flows of the financial liabilities of the Bank. Foreign exchange swaps shall transfer the interest payment resources from one currency into another currency, hedging currency risk. In 2018 and 2017, the Bank did not enter into any interest rate swap to hedge cash flows.

Testing the hedging effectiveness showed that hedging is highly effective and it complies with the requirements of IAS 39. The effective part of the change of fair value of hedging interest rate and currency swaps is recognised in equity. The Bank reported losses related to an ineffective portion of hedging from currency interest rate swaps of CZK 46 million in 2018 and CZK 30 million in 2017. The higher loss is given by the fact that the Bank took the opportunity in the market and negotiated a fixed issue, which has been more cost-effective in terms of the interest rate profile. Hedging relationships used existing issues with a variable coupon with a slightly different profile of interest rate swaps, which resulted in a loss associated with the ineffective portion of the hedge.

(CZK'm)	Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 2018				
INTEREST RATE DERIVATIVES				
Interest rate swaps	2,282	2,282	3	78
Total hedging derivatives	**2,282**	**2,282**	**3**	**78**
31 December 2017				
INTEREST RATE DERIVATIVES				
Interest rate swaps	2,256	2,256	2	167
Cross-currency interest rate swaps	7,545	7,662	–	86
Total hedging derivatives	**9,801**	**9,918**	**2**	**253**

16 / INVESTMENT SECURITIES

The Bank's investment securities represent a portfolio of predominantly state coupon bonds and bonds of international development banks.

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.

All investment securities in the Bank's portfolio are categorised as Stage 1. The allowances recognised against them are immaterial and cannot be reported in millions of CZK.

As of 1 January 2018, listed government bonds issued by the Czech Ministry of Finance at the AA- rating grade and with the residual maturity of more than one year were reclassified. They were reclassified from the FVOCI portfolio (including valuation differences) to the AC portfolio in the volume of CZK 123 million.

Sorted by listing status

(CZK'm)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Total		AAA		AA+ to AA-		A+ to A-		lower than A-	
DEBT SECURITIES AT FAIR VALUE RECOGNIZED IN THE OCI (FVTOCI) – 2018										
SECURITIES AVAILABLE-FOR-SALE – 2017										
to 1. 1. 2018										
– listed	2,136		263		1,611		262		–	
– unlisted	–		–		–		–		–	
	2,136		263		1,611		262		–	
to 31. 12. 2018										
– listed	2,033	2,255	132	263	1,698	1,730	203	262	–	–
– unlisted	–	–	–	–	–	–	–	–	–	–
Total	**2,033**	**2,255**	**132**	**263**	**1,698**	**1,730**	**203**	**262**	**–**	**–**
DEBT SECURITIES AT FAIR VALUE AT AMORTIZED COST (AC) – 2018										
SECURITIES HELD-TO-MATURITY – 2017										
to 1. 1. 2018										
– listed	1,218		–		1,218		–		–	
– unlisted	50		–		–		–		50	
	1,268		–		1,218		–		50	
to 31. 12. 2018										
– listed	1,586	1,095	–	–	1,586	1,095	–	–	–	–
– unlisted	50	50	–	–	–	–	–	–	50	50
Total	**1,636**	**1,145**	**–**	**–**	**1,586**	**1,095**	**–**	**–**	**50**	**50**

Sorted by residual maturity

(CZK'm)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Total		AAA		AA+ to AA-		A+ to A-		lower than A-	
DEBT SECURITIES AT FAIR VALUE RECOGNIZED IN THE OCI (FVTOCI) – 2018										
SECURITIES AVAILABLE-FOR-SALE – 2017										
to 1. 1. 2018										
– listed	249		–		161		88		–	
– unlisted	1,887		263		1,450		174		–	
	2,136		263		1,611		262		–	
to 31. 12. 2018										
– listed	247	183	–	131	163	–	84	52	–	–
– unlisted	1,786	2,072	132	132	1,535	1,730	119	210	–	–
Total	**2,033**	**2,255**	**132**	**263**	**1,698**	**1,730**	**203**	**262**	**–**	**–**
DEBT SECURITIES AT AMORTIZED COST (AC) – 2018										
SECURITIES HELD-TO-MATURITY – 2017										
to 1. 1. 2018										
– listed	41		–		41		–		–	
– unlisted	1,227		–		1,177		–		50	
	1,268		–		1,218		–		50	
to 31. 12. 2018										
– listed	47	176	–	–	47	176	–	–	–	–
– unlisted	1,589	969	–	–	1,539	919	–	–	50	50
Total	**1,636**	**1,145**	**–**	**–**	**1,586**	**1,095**	**–**	**–**	**50**	**50**

In 2018 and 2017 no impairment of investment securities was noted.

17 / TANGIBLE FIXED ASSETS

(CZK'm)	Office equipment	Motor vehicles	Unfinished vehicles	**Total**
COST				
At 1 January 2017	150	5	5	160
Additions	13	–	17	30
Disposals	(22)	–	(13)	(35)
At 31 December 2017	**141**	**5**	**9**	**155**
Přírůstky	16	–	15	31
Disposals	(32)	(2)	(16)	(50)
At 31 December 2018	**125**	**3**	**8**	**136**
OPRÁVKY				
At 1 January 2017	(141)	(3)	–	(144)
Additions	(9)	(1)	–	(10)
Disposals	22	–	–	22
At 31 December 2017	**(128)**	**(4)**	**–**	**(132)**
Additions	(9)	(1)	–	(10)
Disposals	32	2	–	(34)
At 31 December 2018	**(105)**	**(3)**	**–**	**(108)**
CLOSING NET BOOK AMOUNT				
At 31 December 2017	**13**	**1**	**9**	**23**
At 31 December 2018	**20**	**–**	**8**	**28**

18 / INTANGIBLE FIXED ASSETS

(CZK'm)	2018	2017
SOFTWARE		
At 1 January		
Costs	302	272
Accumulated amortisation	(248)	(215)
Opening net book amount	**54**	**57**
Additions	76	64
Disposals	(38)	(34)
Accumulated amortisation	(38)	(33)
K 31 December		
Cost	340	302
Accumulated amortisation	(286)	(248)
Closing net book amount	**54**	**54**

19 / OTHER ASSETS

(CZK'm)	2018	2017
Insurance benefit claim from EGAP	1,333	1,662
Receivable from performance of other collateral	12	31
Prepayments and accrued income	16	9
Value added tax	5	10
Other receivables	1	1
Total other assets	**1,367**	**1,713**
Remaining maturity:		
Short-term other assets	21	51
Long-term other assets	1,346	1,662

The insurance benefit claim is related to the business case that was transferred to EGAP in the course of insurance period.

20 / FINANCIAL LIABILITIES HELD AT AMORTISED COST

Total financial liabilities held at amortised cost

(CZK'm)	2018	2017
Deposits and other financial liabilities at amortized cost due to banks	5,915	1,936
Deposits and other financial liabilities at amortized cost due to clients	965	1,462
Deposits, loans and other financial liabilities at amortized cost	6,880	3,398
Issued bonds at amortized cost	39,130	51,914
Total financial liabilities at amortized cost	**46,010**	**55,312**
Remaining maturity:		
Short-term	11,784	14,500
Long-term	34,226	40,812

Receivables that were not reported as divided by sector in the prior period were reclassified to Deposits and other financial liabilities at amortised cost due to banks as of 31 December 2017 in the amount of CZK 17 million.

Financial liabilities at amortized cost due to banks

(CZK'm)	2018	2017
Short term deposits received	4,008	–
Borrowings	1,907	1,936
Total financial liabilities at amortized cost due to banks	**5,915**	**1,936**
Type of rate:		
Fixed interest rate	4,338	427
Variable interest rate	1,577	1,509
Remaining maturity:		
Short-term	4,040	25
Long-term	1,875	1,911

Financial liabilities at amortized cost due to clients

(CZK'm)	2018	2017
Current accounts	229	324
Term deposits	658	1,057
Escrow accounts	78	81
Total financial liabilities at amortized cost due to clients	**965**	**1,462**
Type of rate:		
Fixed interest rate	829	1,209
Interest free deposits	136	253
Remaining maturity:		
Short-term	887	1,383
Long-term	78	79

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

Liabilities to credit institutions increased by CZK 3,979 million in 2018 (2017: decreased by CZK 3,504 million). Liabilities from issued bonds decreased by CZK 12,784 million (2017: decreased by CZK 3,141 million). Liabilities to other clients decreased by CZK 497 million in 2018 (2017: decreased by CZK 94 million).

Debt securities in issue

(CZK'm)						2018		2017	
ISIN	Nominal	Currency	Issued	Maturity	Rate		(%)		(%)
QUOTED COUPON BONDS									
XS0501185929	150	EUR	15 April 2010	15 April 2020	FIX	3,973	4.1950	3,944	4.1950
XS0598967502	70	EUR	3 March 2011	3 March 2021	FIX	1,865	4.4070	1,851	4.4070
XS0630593233	3 675	CZK	26 May 2011	26 May 2021	FLOAT	3,685	1.6900	3,680	1.0800
XS0680917647	3 675	CZK	22 September 2011	24 September 2018	FLOAT	–	–	3,687	1.1000
XS0757372114	250	EUR	15 March 2012	15 March 2019	FIX	6,616	3.6250	6,561	3.6250
XS0792803131	3 870	CZK	14 June 2012	14 June 2018	FLOAT	–	–	3,873	1.1400
XS0828623073	50	EUR	3 October 2012	3 October 2022	FIX	1,292	2.8870	1,281	2.8870
XS0849901326	50	EUR	2 November 2012	2 November 2018	FIX	–	–	1,281	1.8700
XS0849907281	50	EUR	5 November 2012	5 November 2024	FIX	1,292	3.3020	1,283	3.3020
XS0850460634	150	EUR	15 November 2012	15 November 2022	FIX	2,635	2.4400	3,000	2.4400
XS0911304326	40	EUR	8 April 2013	8 April 2025	FIX	1,050	2.9050	1,042	2.9050
XS0931692635	100	EUR	16 May 2013	16 May 2018	FLOAT	–	0.0000	2,554	0.0990
XS0973829483	150	EUR	25 September 2013	25 September 2020	FLOAT	3,859	0.0990	3,832	0.1280
XS1082830255	250	EUR	2 July 2014	2 July 2021	FLOAT	6,435	0.2290	6,387	0.2790
XS1121094632	150	EUR	16 October 2014	16 October 2024	FLOAT	3,859	0.1190	3,831	0.1480
XS1210661572	100	EUR	1 April 2015	3 April 2023	FLOAT	2,569	-	2,550	-
XS1298556579	60	USD	29 September 2015	29 September 2018	FLOAT	–	-	1,277	1.9828
						39,130		**51,914**	
Remaining maturity:									
Short-term						6,858		13,092	
Long-term						32,272		38,822	

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

21 / OTHER LIABILITIES

(CZK'm)	2018	2017
Accruals and deferrals	2	34
Estimated payables to employees	35	37
Estimated items – at the expense of early termination of business	3	14
Estimated payable for VAT – a difference of coefficients	5	6
Payables to clients from payment transactions and received bail	302	50
Advance payment on insurance benefits	3,658	–
Miscellaneous payables	16	20
Total other liabilities	**4,021**	**161**
Remaining maturity:		
Short-term	3,806	135
Long-term	215	26

In 2018, accruals and deferrals do not include a commitment to refund an unused advance received to subsidise a loss from officially supported financing (2017: a commitment of CZK 31 million).

22 / PROVISIONS

(CZK'm)	2018	2017
PROVISIONS FOR DEFERRED COMPENSATION INCLUDING PAYMENTS INSURANCE		
At 1 January	**50**	**51**
Additions to provision	12	11
Release of reserves	(10)	(9)
Usage of provision	(5)	(3)
At 31 December	**47**	**50**
PROVISIONS FOR EMPLOYEE BENEFITS		
At 1 January	**1**	**1**
Additions to provision	1	1
Release of reserves	–	–
Usage of provision	–	(1)
At 31 December	**2**	**1**
PROVISION FOR EXPENSES RETROACTIVELY RAISED THE VAT DEDUCTION		
At 1 January	**22**	**22**
Additions to provision	–	–
Release of reserves	–	–
Usage of provision	–	–
At 31 December	**22**	**22**
PROVISIONS FOR FINANCIAL GUARANTEES		
At 1 January	**123**	**21**
Additions to provision	48	99
Release of reserves	(130)	(2)
Usage of provision	–	–
At 31 December	**41**	**118**
PROVISIONS FOR LOAN COMMITMENTS		
At 1 January	**4**	**n/a**
Additions to provision	20	n/a
Release of reserves	(20)	n/a
Usage of provision	–	n/a
At 31 December	**4**	**n/a**
Total provisions	**116**	**191**

As a result of the application of IFRS 9, the provisions for financial guarantees and credit commitments increased by CZK 5 million and CZK 4 million, respectively, as of 1 January 2018 compared to 31 December 2017.

23 / DEFERRED INCOME TAXES

Deferred income tax for 2018 is calculated using a tax rate for years of expected use of the 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	2018	2017
At 1 January 51 32		**51**	**32**
Deferred tax on tangible and intangible assets		2	3
Deferred tax unpaid penalty interest		–	6
Total income statement charge	11	2	9
SECURITIES			
change in deferred tax for-sale securities	25	n/a	10
change in the deferred tax on the debt securities at fair value recognized in the OCI	25	6	n/a
CASH FLOW HEDGES			
change in deferred tax on hedging derivatives	25	(38)	–
At 31 December		**21**	**51**

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

(CZK'm)	2018	2017
DEFERRED INCOME TAX LIABILITIES		
Accelerated tax depreciation	(1)	(3)
Available-for-sale securities	n/a	(12)
Debt securities at fair value recognized in the OCI	(6)	n/a
	(7)	(15)
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	8	46
	28	66
Net deferred income tax assets/(liabilities)	**21**	**51**

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 application in subsequent tax periods.

24 / SHARE CAPITAL

According to Act No. 58/1995 Coll. the Czech State must own at least two thirds of the Bank's shares. Shareholders' rights are exercised by the Ministry of Finance of the Czech Republic. All issues of the Bank's shares are ordinary shares and are not associated with any special rights.

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

(CZK'm)	Number of shares (ks)	Nominal value per share	Total nominal value	Share (%)
31 December 2018				
Czech Republic	3,200	1	3,200	
Czech Republic	100	10	1,000	
Czech Republic tatal	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 2017				
Czech Republic	3,200	1	3,200	
Czech Republic	100	10	1,000	
Czech Republic tatal	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**

25 / VALUATION DIFFERENCES

(CZK'm)	Note	**2018**	**2017**
AVAILABLE-FOR-SALE SECURITIES			
At 1 January		**n/a**	**94**
Changes in fair value		n/a	(48)
Deferred income taxes	23	n/a	10
Total change		**n/a**	**(38)**
At 31 December		**n/a**	**56**
DEBT SECURITIES AT FAIR VALUE RECOGNIZED IN THE OCI (FVTOCI)			
At 1 January		**60**	**n/a**
Changes in fair value		(38)	n/a
Deferred income taxes	23	6	n/a
Total change		**(32)**	**n/a**
At 31 December		**28**	**n/a**
CASH FLOW HEDGES			
At 1 January		**(193)**	**(192)**
Changes in fair value		196	(1)
Deferred income taxes	23	(38)	–
Total change		**158**	**(1)**
Influence of cross-rounding		(1)	–
At 31 December		**(35)**	**(193)**
Revaluation Total		**(8)**	**(137)**

As a result of the application of IFRS 9, valuation gains and losses on debt securities at fair value through OCI increased by CZK 4 million as of 1 January 2018 compared to 31 December 2017.

26 / RESERVES

Statutory reserve

Based on the Articles of Association, the Bank is required to set aside a statutory reserve in equity 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 2018, it was increased by CZK 13 million through a 2017 profit allocation.

Other special funds

The Bank creates an export risk fund, which is intended primarily to cover losses of the Bank. In 2018 it was increased by CZK 244 million through a 2017 profit allocation. The remaining balance of the fund is CZK 1,077 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)	2018	2017
CREDIT COMMITMENTS		
Payment guarantee	–	13
Non-payment guarantee[2]	1,134	1,708
Irrevocable commitments	4,976	1,702
Total	**6,110**	**3,423**

Received collateral and pledges

(CZK'm)	2018	2017
Payment guarantees	1,310	1,295
Non-payment guarantees[2]	–	–
Total accepted guarantees	**1,310**	**1,295**
Insurance with state subsidy	41,827	48,279
Insurance without state subsidyy	–	8
Total accepted insurance	**41,827**	**48,287**
Cash	284	125
Securitiesy	–	3
Total other collateral accepted	**284**	**128**
Securities accepted in reverse repo transactions	**10,725**	**2,563**

[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 accepted) are stated at value, which represents the expected fulfilment from contingent assets by the Bank in the case of a debtor's failure and subsequent foreclosure. This is to collateralise balance-sheet and off-balance sheet exposures of the Bank.

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

Operating leasing

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

(CZK'm)	2018	2017
Czech Republic	19	17
Russian Federation	–	1
Within 1 year	**19**	**18**

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 structure of the shareholders; 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 at the balance sheet date and related expense and income for the year are as follows:

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

(CZK'm)		2018		2017
FINANCIAL ASSETS	Balance at 31 December	Income	Balance at 31 December	Income
PLACEMENTS WITH BANKS				
Česká národní banka	10,920	90	2,760	8
Českomoravská záruční a rozvojová banka, a.s.	–	–	–	(12)
BORROWED BONDS				
Ministry of Finance of the Czech Republic	3,229	59	2,769	24
PREMIUMS RECEIVABLE AND OTHER RECEIVABLES				
EGAP, a.s.	1,341	8	1,683	43
Total financial assets	**15,490**	**157**	**7,212**	**63**

(CZK'm)		2018		2017
FINANCIAL LIABILITIES	Balance at 31 December	Expense	Balance at 31 December	Expense
DUE TO CLIENTS				
EGAP, a.s.	683	(42)	1,024	(6)
RECEIVED BACKUP INSURANCE PAYMENT				
EGAP, a.s.	3,658	–	–	–
Total financial liabilities	**4,341**	**(42)**	**1,024**	**(6)**

Movements on the Czech state subsidy account for the losses arising from and covered by the Czech state 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.

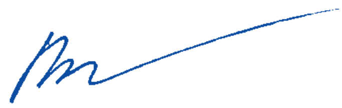
29 / SUBSEQUENT EVENTS

In the period from the reporting period end to the date of preparation of the financial statements, past-due receivables included in receivables with increased credit risk (Stage 2) in the total amount of CZK 13.5 million were collected. This fact was taken into account in creating allowances as of 31 December 2018.

Date of preparation: 29 March 2019

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

Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors
a CEO



JUDr. Martin Draslar, Ph.D.
Vice-Chairman of the Board of Directors
and Deputy CEO

Related Party Transactions Report

5

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

Structure of Relations as of 3 June 2018

Informace o propojení dalších osob viz příloha č. 1

Structure of Relations since 4 June 2018

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 Consensus") 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 3 June 2018 and their share in voting rights:

1. State	**84% of shares**
in oder to determine the majority of votes of the ministries, the votes are divided as follows:	
Ministry of Finance of the Czech Republic	2,184 votes
based at Letenská 15, Prague 1, 118 10, corporate ID 00006947	
Ministry of Industry and Trade of the Czech Republic	1,260 votes
Based at Na Františku 32, Prague 1, 110 15, corporate ID 47609109	
Ministry of Foreign Affairs of the Czech Republic	504 votes
Based at Loretánské nám. 5, Prague 1, 180 00, corporate ID 45769851	
Ministry of Agriculture of the Czech Republic	252 votes
Based at Těšnov 17, Prague 1, 117 05, corporate ID 00020478	
2. Exportní garanční a pojišťovací společnost, a.s.	**16% of shares**
Based at Vodičkova 34, Prague 1, 111 21, corporate ID 45279314	800 votes

Composition of shareholders since 4 June 2018 and their share in voting rights:

1. State	**84% of shares**
Ministry of Finance of the Czech Republic	
Based at Letenská 15, Prague 1, 118 10, corporate ID 00006947	4,200 votes
2. Exportní garanční a pojišťovací společnost, a.s.	**16% of shares**
Based at Vodičkova 34, Prague 1, 111 21, corporate ID 45279314	800 votes

Individual shareholders exercise their rights primarily through the following bodies:

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 the 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

1. Insurance Agreement No. 202001669 of 12 February 2018
2. Insurance Agreement No. 202001625 of 15 January 2018
3. Insurance Agreement No. 202001726 of 17 January 2018
4. Insurance Agreement No. 202001805 of 22 June 2018
5. Insurance Agreement No. 202001873 of 3 October 2018
6. Insurance Agreement No. 202001794 of 14 August 2018
7. Insurance Agreement No. 202001939 of 30 August 2018
8. Insurance Agreement No. 107011237 of 18 September 2018
9. Insurance Agreement No. 107011248 of 21 December 2018
10. Insurance Agreement No. 107011259 of 18 September 2018
11. Insurance Agreement No. 107011182 of 18 September 2018

12. Insurance Agreement No. 107011171 of 18 September 2018
13. Insurance Agreement No. 107011193 of 18 September 2018
14. Insurance Agreement No. 107011226 of 21 September 2018
15. Insurance Agreement No. 107011204 of 21 December 2018
16. Limited Insurance Agreement No. 202001761 of 19 September 2018

Amendments to Individual Insurance Agreements

1. Amendment No. 6 of 17 May 2018 to Insurance Agreement No. 107006794
2. Amendment No. 6 of 16 March 2018 to Insurance Agreement No. 135006299
3. Amendment No. 7 of 14 June 2018 to Insurance Agreement No. 135006299
4. Amendment No. 8 of 10 October 2018 to Insurance Agreement No. 135006299
5. Amendment No. 7 of 16 March 2018 to Insurance Agreement No. 133006027
6. Amendment No. 8 of 14 June 2018 to Insurance Agreement No. 133006027
7. Amendment No. 1 of 1 June 2018 to Insurance Agreement No. 202001603
8. Amendment No. 1 of 26 March 2018 to Insurance Agreement No. 107011046
9. Amendment No. 2 of 24 August 2018 to Insurance Agreement No. 107011046
10. Amendment No. 11 of 18 January 2018 to Insurance Agreement No. 133005904
11. Amendment No. 12 of 18 April 2018 to Insurance Agreement No. 133005904
12. Amendment No. 3 of 18 April 2018 to Insurance Agreement No. 107008043
13. Amendment No. 3 of 20 April 2018 to Insurance Agreement No. 107009887
14. Amendment No. 2 of 5 January 2018 to Insurance Agreement No. 107010203
15. Amendment No. 3 of 13 June 2018 to Insurance Agreement No. 107010203
16. Amendment No. 6 of 5 March 2018 to Insurance Agreement No. 135005164
17. Amendment No. 1 of 15 January 2018 to Insurance Agreement No.202001614
18. Amendment No. 7 of 5 March 2018 to Insurance Agreement No. 133004813
19. Amendment No. 4 of 5 January 2018 to Insurance Agreement No. 107010078
20. Amendment No. 5 of 13 June 2018 to Insurance Agreement No. 107010078
21. Amendment No. 5 of 5 January 2018 to Insurance Agreement No. 107007863
22. Amendment No. 6 of 13 June 2018 to Insurance Agreement No. 107007863
23. Amendment No. 5 of 5 March 2018 to Insurance Agreement No. 137001926
24. Amendment No. 7 of 5 March 2018 to Insurance Agreement No. 137001915
25. Amendment No. 5 of 5 March 2018 to Insurance Agreement No. 133004824
26. Amendment No. 7 of 4 October 2018 to Insurance Agreement No. 137002196
27. Agreement on Amendment No. 7 amended on 31 August 2018 Related to Insurance Agreement No. 107007863
28. Agreement on Amendment No. 6 amended on 31 August 2018 Related to Insurance Agreement No. 107010078
29. Agreement on Amendment No. 4. amended on 31 August 2018 Related to Insurance Agreement No. 107010203
30. Amendment No. 5 of 3 January 2018 to Insurance Agreement No. 121000319

Insurance Rulings

1. Insurance Ruling No. 013 of 11 January 2018 to Limited Insurance Agreement No. 202001401
2. Insurance Ruling No. 001 of 22 October 2018 to Limited Insurance Agreement No. 202001805
3. Insurance Ruling No. 002 of 4 December 2018 to Limited Insurance Agreement No. 202001805
4. Insurance Ruling No. 003 of 14 December 2018 to Limited Insurance Agreement No. 202001805
5. Insurance Ruling No. 001 of 3 September 2018 to Limited Insurance Agreement No. 202001939
6. Insurance Ruling No. 002 of 4 September 2018 to Limited Insurance Agreement No. 202001939

Amendments to Insurance Rulings

No amendment

Other Agreements

1. Agreement to Terminate an Insurance Agreement of 14 March 2018 Related to Insurance Agreement No. 121000286
2. Agreement to Terminate Insurance Agreements of 14 March 2018 Related to Insurance Agreements Nos. 121000016, 121000027, 121000095, 121000106, 121000218 and 121000387

3. Agreement to Terminate Insurance Agreements of 15 June 2018 Related to Insurance Agreements Nos. 121000319 and 121000376
4. Agreement on the Partial Assignment of an Insurance Agreement of 6 April 2018 Related to Insurance Agreement No. 202001399 (PR No. 016)
5. Agreement on the Partial Assignment of an Insurance Agreement of 6 April 2018 Related to Insurance Agreement No. 202001399 (PR No. 017)
6. Agreement on the Partial Assignment of an Insurance Agreement of 11 April 2018 Related to Insurance Agreement No. 202001399 (PR No. 018)
7. Agreement on the Partial Assignment of an Insurance Agreement of 11 April 2018 Related to Insurance Agreement No. 202001399 (PR No. 019)
8. Agreement on the Partial Assignment of an Insurance Agreement of 11 June 2018 Related to Insurance Agreement No. 202001546
9. Agreement on the Partial Assignment of an Insurance Agreement of 29 June 2018 Related to Insurance Agreement No. 202001399 (PR No. 014)
10. Agreement on the Partial Assignment of an Insurance Agreement of 17 October 2018 Related to Insurance Agreement No. 202001658 (PR No. 001)
11. Agreement on the Partial Assignment of an Insurance Agreement of 17 October 2018 Related to Insurance Agreement No. 202001658 (PR No. 002)
12. Agreement to Terminate an Insurance Agreement of 5 September 2018 Related to Insurance Agreement No. 133005904
13. Agreement to Terminate an Insurance Agreement of 5 November 2018 Related to Insurance Agreement No. 107009887
14. Agreement to Terminate an Insurance Agreement of 14 February 2018 Related to Insurance Agreement No. 107010225

All of the above agreements were concluded under arm's length conditions and the Bank suffered no detriment arising therefrom.

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:

- 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 export suppliers during export transactions;
- Possibility of obtaining rating at the sovereign level which provides the Bank with an opportunity to gain cheaper funds on financial markets;
- More effective use of economic diplomacy tools in the interest of Czech exporters;
- Close coordination of institutions within the system of state support for export and business and connecting support for innovations and new technologies with the support for business, export and internationalisation.

In Prague on 29 March 2019

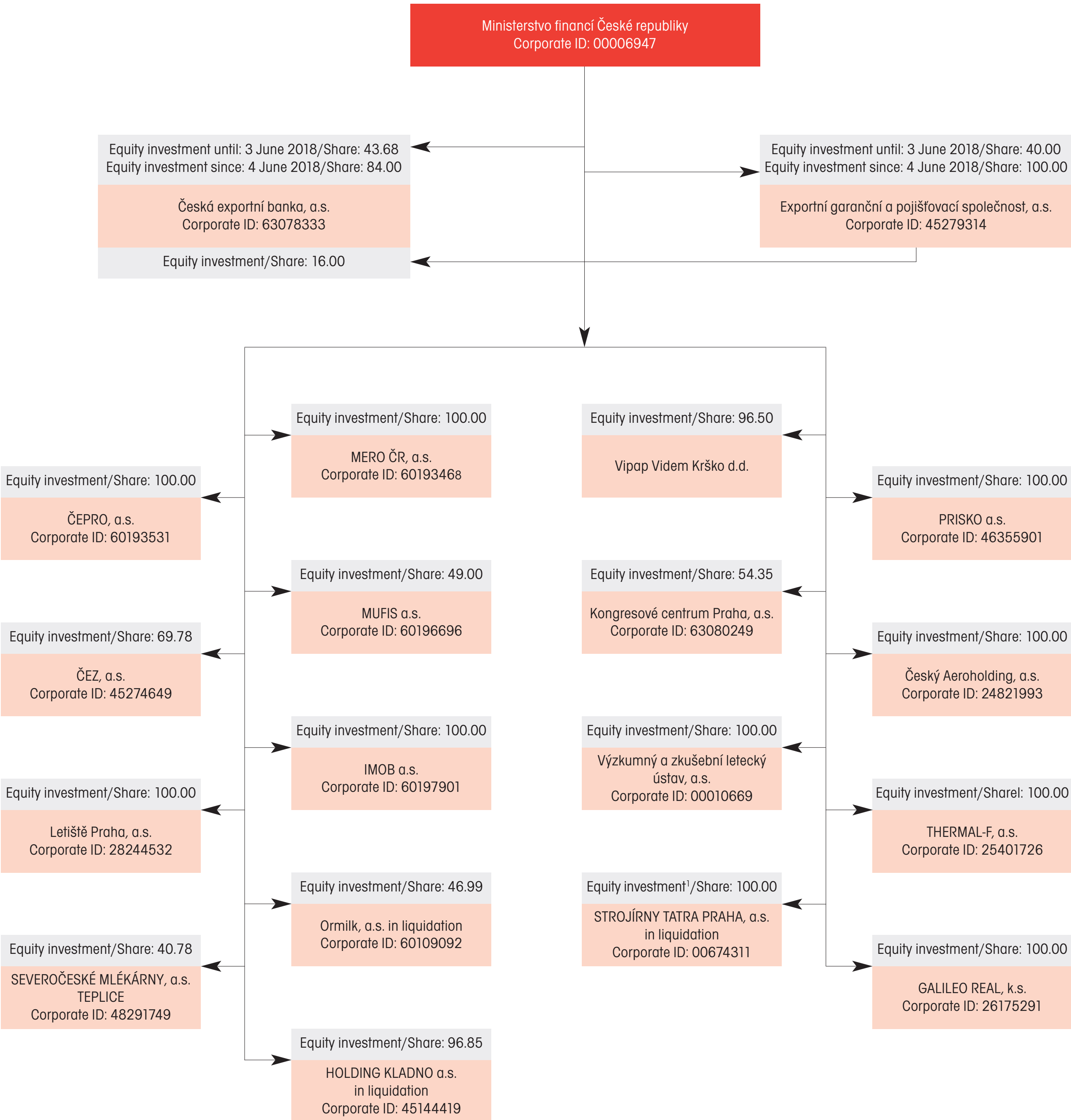
Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors

JUDr. Martin Draslar, Ph.D.
Vice-Chairman of the Board of Directors

Appendix 1

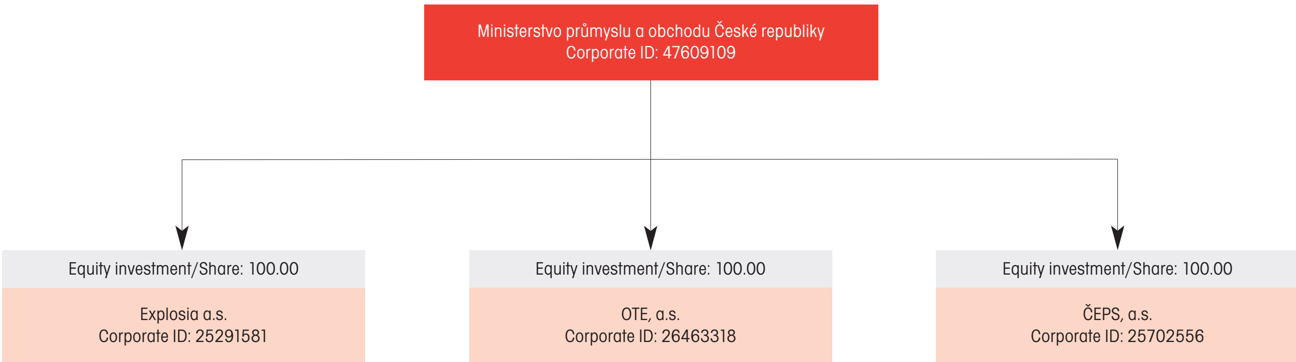
List of Joint Stock Companies Controlled by Shareholders Holding an Equity Investment between 40% and 100%

Ministry of Finance of the Czech Republic[1]



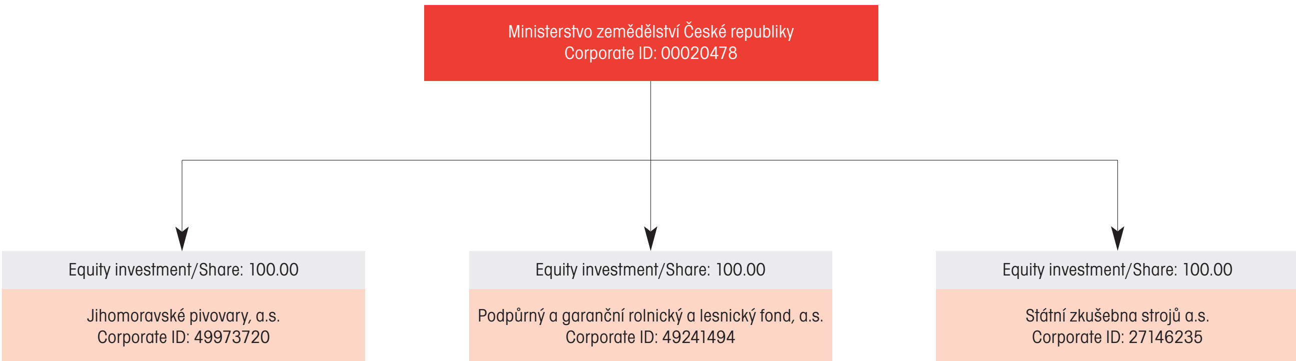
[1] STROJÍRNY TATRA PRAHA, a.s. in liquidation – erasure from the public register on 23 May 2018

Ministry of Industry and Trade of the Czech Republic – situation as of 3 June 2018[2]



[2] With effect from 4 June 2018, shareholder rights of the state in ČEB, a.s. are exercised by the Ministry of Finance of the Czech Republic only.

Ministry of Agriculture of the Czech Republic – situation as of 3 June 2018[3]



[3] With effect from 4 June 2018, shareholder rights of the state in ČEB, a.s. are exercised by the Ministry of Finance of the Czech Republic only.