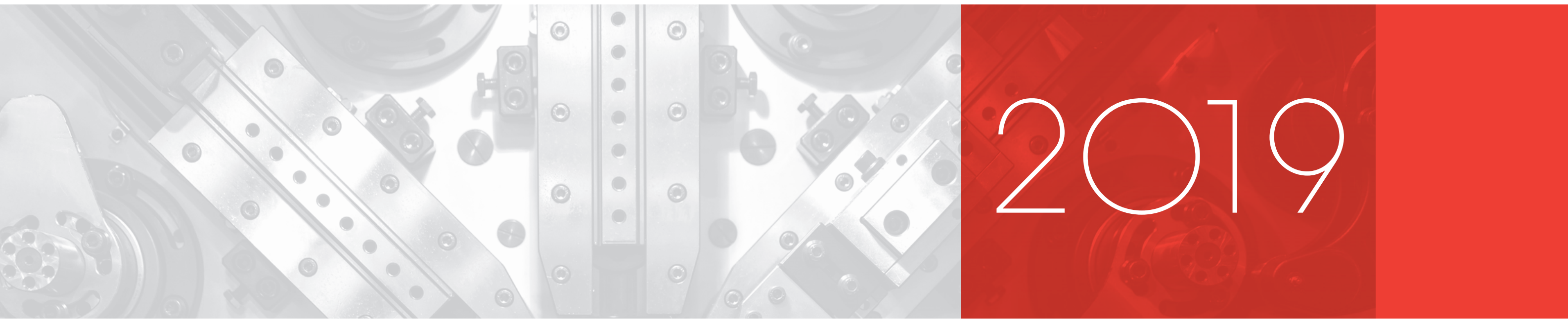
ANNUAL REPORT



CZECH EXPORT BANK
ČESKÁ EXPORTNÍ BANKA

Introduction by the Chairman of the Board of Directors

Dear Shareholders, Dear Business Partners,

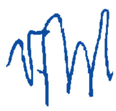
During last year, you could see exports of domestic companies hit a record high, as well as the first joint presentation of institutions supporting economic developments under the "Czech Republic – The Country for the Future" brand. This was 2019 and České exportní banka (the "Bank") also played its part.

In 2019, the number of new exporters using the Bank's financing for the first time was at its highest level in recent years: 16 out of 29 supported exporters. The aggregate volume of supported financing involving the Bank amounted to CZK 7.6 billion in 2019 (also in terms of banking clubs). Besides, none of the new loans provided in 2019 show an inmediate risk of credit loss.

The Bank has made remarkable progress in cleaning the portfolio of risk-exposed receivables, which relates to decreasing the balance sheet total by half in the last five years. Accordingly, the Bank's management continues to make every effort to retain operating effectiveness. The Bank's operating expenses recorded a year-on-year decrease of 11% in 2019, being approximately a third lower than five years ago. Due to the Bank observing prudence principles, the Bank has not requested any subsidy for the settlement of losses from supported financing from the Ministry of Finance since 2016 (including 2019). Contrarily, despite the Bank's primary goal of supporting Czech exports rather than generating profits, the Bank reported net profit of CZK 66 million in 2019.

As in 2018, I regret to say that a buyer of the ongoing project "Adularya" has not yet been found and the sale will thus continue in 2020. However, 2020 will be a turning year for the Bank in many aspects as the Bank is to become a subsidiary of the insurance company EGAP. Therefore, the Bank is already seeking the synergic benefits for the state and exporters. Furthermore, the Bank will also carry on implementing its strategy for 2019-2020 as adopted by the Supervisory Board in September. In 2020, the Bank will actively participate in cooperation within the team "Czech Republic – The Country for the Future", primarily by following up the successful presentation in 2019.

In conclusion, I suppose that Czech exporters have an uncertain year ahead, affected by the threat of economic stagnation, which has been intensely debated in recent days. However, I consider it certain that the Bank will retain its position of a reliable partner for Czech exporters in times of need.



Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors and Chief Executive Officer

Auditor's Report

Deloitte.

Deloitte Audit s.r.o.
Churchill I
Italská 2581/67
120 00 Prague 2 – Vinohrady
Czech Republic

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

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

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Česká exportní banka, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2019, 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 2019, 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.

Key Audit Matters

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

<table>
<tr><th>Key audit matter</th><th>Related audit procedures</th></tr>
<tr><th colspan="2">Allowances for the loans and receivables</th></tr>
<tr><td>
Refer to Note 13 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.
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):
<ol type="a">
Amount and timing of expected future cash flows;
Collateral value.

The loan loss provisions for expected losses for loans at Stage 1 and Stage 2 represent CZK 180 million. The loan loss provision for impaired loans at Stage 3 represents CZK 5 668 million of the total recognised amount of CZK 43 839 million as at 31 December 2019.
</td><td>
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
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.
</td></tr>
</table>

<table>
<tr><th>Key audit matter</th><th>Related audit procedures</th></tr>
<tr><td colspan="2">Interest and fee income recognition</td></tr>
<tr><td>Refer to Note 6 and Note 7 of the Financial Statements

For the year ended 31 December 2019 the net interest income and similar income was CZK 553 million and net fee and commission income was CZK 4 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 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.</td><td>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 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.</td></tr>
</table>

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 11 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 26 March 2020 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 Related Party Transactions Report

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 2019 which is included in this annual report on pages 115 to 120. 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 2019 contains material factual misstatements.

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

In Prague on 26 March 2020

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. registration no. 079	David Batal registration no.2147

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Key Indicators

Key indicators unaudited data

	unit	2019	2018
Financial results[1]			
Net interest income	CZK mil.	553	969
Net fee and commission income	CZK mil.	4	8
Operating income	CZK mil.	51	(66)
Asset impairment	CZK mil.	(96)	(367)
Total operating costs	CZK mil.	(357)	(402)
Income Tax	CZK mil.	18	129
Net profit	CZK mil.	66	352
Balance sheet			
Total assets	CZK mil.	43,876	57,446
Amounts due from customers	CZK mil.	32,162	40,177
Amounts due from banks	CZK mil.	5,829	11,913
Client deposits	CZK mil.	2,529	965
Bank deposits	CZK mil.	1,768	5,915
Issued bonds	CZK mil.	31,782	39,130
Total equity	CZK mil.	7,171	7,068
Ratios[2]			
Return on average assets (ROAA)	%	0.13	0.56
Return on average equity tier 1 (ROAE)	%	0.95	5.31
Total capital ratio	%	86.19	89.24
Assets per employee (ROAE)	CZK mil.	313.40	396.18
Administrative expenses per employee (ROAE)	CZK mil.	(2.01)	(2.12)
Net profit or loss per employee	CZK mil.	0.47	2.43
Other information			
Average headcount	employees	145	150
Headcount (as of 31 December)	employees	140	145
Guarantees issued	CZK mil.	1,390	1,134
Loan commitments	CZK mil.	3,373	4,976
Rating – long-term payables			
Moody's	–	Aa3	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
Net profit/loss from financial operations including state subsidies + Other operang 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/kdo-jsme/povinne-zverejnovani-informace/pravidelne-ctvrtletni-informace2/

The impact arising from the application of IFRS 16 on the indicators is immaterial, principally following from a decrease in the net profit of CZK 1 million.

Return on average assets (ROAE)
Net profit for the reporting period divided by average total assets.
Average total asests: total of monthly amounts of total asests et the year-end X-1 to year-end X divided by 13.
Return on average equity (ROAE)
Net profit for the reporting period divided by average capital Tier 1.
Average capital Tier 1: total of montly amounts of capital Tier 1 at the year-end X-1 to year-end X divided by 13.
Total caital ratio
Capital at the year-end divided by risk exposures at the year-end.
Assets per employee
Total assets for the reporting period divided by average headcount.
Administrative expenses per employee
Administrative expenses for for the reporting period divided by average headcount.
Net profit per employee
Net profit for the reporting period divided by average headcount.

ČEB's Profile

1

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 No. 21/1992 Coll., on Banks
- a) Acceptance of deposits made by general publici
- b) Provision of loans

(ii) Pursuant to Section 1 (3) of Act No. 21/1992 Coll., on Banks
- a) Investing in securities on the Bank's own account, in the following scop
  - 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 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; and
- 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 No. 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 2019: No activities have been limited or eliminated.

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

Registered office:	Vodičkova 34/701, Prague 1, 111 21
Legal status:	Joint Stock Company
Corporate ID:	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 ČEB performed its activities in 2019:

Act No. 101/2000 Coll., on Personal Data Protection;
Act No. 250/2016 Coll., on Liability on Administrative Offences and their Procedures;
Act No. 370/2017 Coll., on Payments;
Act No. 21/1992 Coll., on Banks;
Act No. 280/2009 Coll., Tax Code;
Act No. 190/2004 Coll., on Bonds;
Act No. 235/2004 Coll., on Value Added Tax;
Act No. 253/2008 Coll., on Certain Measures against Money Laundering and Terrorism Financing;
Act No. 69/2006 Coll., on the Implementation of International Sanctions;
Act No. 256/2004 Coll., on Capital Market Undertakings;
Act No. 499/2004 Coll., on Archiving and Record Management;
Act No. 563/1991 Coll., on Accounting;
Act No. 89/2012 Coll., Civil Code;
Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act No. on Business Corporations);
Act No. 58/1995 Coll., on Insuring and Financing of Exports with State Support;
Act No. 229/2002 Coll., on the Financial Arbiter;
Act No. 586/1992 Coll., on Income Taxation;
Act No. 589/1992 Coll., on Social Security Contributions and Contributions to the State Employment Policy;
Act No. 592/1992 Coll., on Public Health Insurance;
Act No. 93/2009 Coll., on Auditors;
Act No. 304/2013 Coll., on Public Registers of Legal and Natural Persons;
Regulation No. 314/2013 Coll., on Submitting Information and the Underlying Documents to the Czech National Bank by Entities included in the Financial Institution Sector;
Regulation No. 163/2014 Coll., on Rules in the Prudential Business of Banks, Savings Banks and Credit Associations and Securities Brokers;
Regulation No. 233/2009 Coll., on Applications, Approval of Persons and the Manner of Proving Professional Qualifications, Trustworthiness and Experience of Persons;
Regulation No. 234/2009 Coll., on Anti-market Abuse Protection and Transparency;
Regulation No. 67/2018 Coll., on Certain Requirements for the System of Internal Principles, Procedures and Review Measures for Anti-money Laundering and Terrorism Financing;
Regulation No. 308/2017 Coll., on Detailed Provisions for Certain Rules related to the Provision of Investment Services;
Regulation No. 424/2017 Coll., on Reporting Duties of Some Entities Operating on the Capital Market;
Regulation No. 319/2017 Coll., on Professional Qualification for Distribution on the Capital Market;
Regulation No. 58/2006 Coll., on Keeping Separate Records on Investment Instruments and Records related to the Separate Records on Investment Instruments;
Regulation No. 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 No. 408/2010 Coll., on Financial Collateral.

Commission Delegated Regulation (EU) 2018/179 of 25 September 2017 amending Regulation (EU) No 1233/2011 of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits is directly binding for ČEB.

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 186/MSPH 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 publicly 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 and has no organisational branch abroad.

Act No. 58/1995 Coll., on Insurance and Financing of 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 No. 58/1995 Coll., on Insurance and Financing of 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 and human rights 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.

At ČEB, labour relations are governed by Act No. 262/2006 Coll., the Labour Code, as amended. This involves contracts of employment, agreements to complete a job and agreements to work.

Members of the Board of Directors, members of the Supervisory Board and members of the Audit Committee perform their functions based on a contract of mandate entered into in line with Section 59 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act on Business Corporations). The Bank's internal standards (i.e. statutory norms, guidelines, internal policies, codices, strategies) regulate specific areas of labour relations and performance of functions. This principally relates to the following internal standards: the Bank's Articles of Association, Labour Code, Employee Code of Ethics, Organisational Rules, Health and safety at work and fire protection, Rewarding and performance management, Business trips and travel reimbursement, Employee acquisition and selection, Employee training, Remuneration of Board members, General remuneration principles of ČEB employees (risk takers), HR management principles.

The Bank makes no investments in research and development. As part of the permitted variant of the product "credit for pre-export financing", the Bank provides Czech producers with an opportunity to finance the introduction of new R&D outcomes into production – i.e. commercialisation of materialised R&D outcomes in relation to exports. In 2019, this variant of the product was not provided. Historically, the Bank records three loans provided in the above-specified product variant in the total nominal amount of CZK 1,088 billion.

Furthermore, the Bank also fully complies with the obligations arising for the Czech Republic from the OECD Guidelines for Combating Bribery of Foreign Public Officials in International Business Transactions; specifically, the OECD Recommendation on Bribery and Officially Supported Export Credits (2019). The Bank predominantly uses this document in formulating the requirements for exporters and setting the course of action in evaluating compliance with the conditions for combatting corruption in specific export transactions.

In compliance with Section 41 (a) of Act No. 21/1992 Coll., on Banks, ČEB contributes to the system of insurance of receivables from deposits and contributes to the Deposit Insurance Fund in the scope defined by law. The contributions to the system amounted to CZK 23,141 in 2019.

ČEB, as a securities trader, is obliged to contribute to the Deposit Guarantee Fund of the Securities Traders in compliance with Act No. 265/2004 Coll., on Capital Market Undertakings. In compliance with Section 129 (2) of the Act, the contribution of ČEB amounted to CZK 10,000 in 2019.

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 2019 as stipulated by the Czech National Bank amounted to CZK 8 million.

1.5. Administrative, Management and Supervisory Bodies of ČEB and their 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 No. 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 2019 *(with changes that occurred during 2019)*

Chairman	
Ing. Rudolf Rabiňák	Substitute member from 27 June 2019 to 18 December 2019 and Chairman from 1 September 2019 to 18 December 2019 (as part of the substitute membership) Member and Chairman since 18 December 2019
Vice-Chairman	
Ing. Vladimír Bärtl	*Member from 23 June 2014 to 23 June 2019 and Vice-Chairman from 26 May 2016 to 23 June 2019* *Substitute member from 24 June 2019 to 18 December 2019 and Vice-Chairman from 27 June 2019 to 18 December 2019 (as part of the substitute membership)*
Members	
Ing. Miroslav Zámečník	since 24 April 2017
prof. PhDr. Petr Teplý, Ph.D.	from 23 June 2014 to 23 June 2019, re-appointed on 24 June 2019
Jan Drahota, MA	*from 24 April 2017 to 28 April 20199*
Ing. Jakub Skavroň	*from 21 December 2017 to 31 May 2019*

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

Board of Directors as of 31 December 2019

Chairman **Ing. Jaroslav Výborný, MBA** Chairman of the Board of Directors/Chief Executive Officer Chief Executive Officer in charge of the Export Financing division	Member since 1 July 2015, Vice-Chairman from 22 September 2016 to 27 March 2018 and Chairman since 27 March 2018
Vice-Chairman **JUDr. Martin Draslar, Ph.D.** Vice-Chairman of the Board of Directors in charge of the Finance and Operations division	Member since 15 October 2015 and Vice-Chairman since 16 August 2018
Members **Ing. Emil Holan** Member of the Board of Directors in charge of the Risk Management division	Since 1 August 2018

Audit Committee – set up by a decision of the General Meeting of the Bank 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 audit of the financial statements and recommends the statutory auditor.

Audit Committee as of 31 December 20199 (with changes that occurred during 2019)

Chairman **Ing. Ladislav Langr**	Member since 23 November 2014 and Chairman from 10 December 2014 to 23 November 2018, re-appointed as Member and Chairman on 19 December 2018
Members **Ing. Radovan Odstrčil**	since 27 April 2016
Ing. Stanislav Staněk	since 29 April 2019
Ing. Ladislav Zelinka, Ph.D.	Substitute member since 8 February 2017, member from 24 April 2017 to 28 April 2019

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 2019 was as follows:

Chairman of the Credit Committee
Ing. Emil Holan
Member of the Board of Directors, in charge of the Risk Management division

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Vice-Chairman of the Credit Committee
Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors/Chief Executive Officer
in charge of the Export Financing division

Member of the Credit Committee
JUDr. Martin Draslar, Ph.D
Vice-Chairman of the Board of Directors, in charge of the Finance and Operations division

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Members of the Credit Committee on behalf of Risk Management
Ing. Jiří Soukup
Director of the Loan Analysis department

PhDr. Václav Fišer
Director of the Credit Risk Management department

Members of the Credit Committee on behalf of the Export Financing division
Ing. Tomáš Hadžega
Director of the Export Financing division

Ing. Miloš Welser
Deputy Director of the Export Financing division

Assets and Liabilities Management Committee (ALCO)

Assets and Liabilities Management Committee operates as permanent decision-making and advisory body of the Board of Directors for deciding on and evaluating all issues related to the management of assets and liabilities, minimisation of market risks related to banking transactions and operations of Česká exportní banka, a.s. on financial markets, 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 2019 was as follows:

Chairman of ALCO
Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors/Chief Executive Officer
in charge of the Export Financing division

Vice-Chairman of ALCO
Ing. Emil Holan
Member of the Board of Directors, in charge of the Risk Management division

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Members of ALCO
JUDr. Martin Draslar, Ph.D.
Member of the Board of Directors, in charge of the Finance and Operations division

Ing. Miloš Welser
Deputy Director of the Export Financing division

Ing. David Franta, MBA
Director of the Treasury division

Ing. Roman Somol, MBA
Head of the Banking Risk Management department

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

Information Technologies Development Committee (ITDC)

Information Technologies Development Committee is a 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 2019 was as follows::

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

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Vice-Chairman of ITDC
Ing. Emil Holan
Member of the Board of Directors, in charge of the Risk Management division

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Members of ITDC
Ing. Jan Bukovský
ICT Security Inspector

Ing. Hana Vondráčková
Credit Methodologist

Ing. Petr Jindrák
Director of the Banking IS Development division

Ing. Dagmar Zelisková
Statistics Analyst

Ing. Pavel Kašpar
Director of Banking IS Operations *until 31 December 2019*

Operational Risk Management Committee (ORCO)

Operational Risk Management Committee is a 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.y.

The composition of ORCO in 2019 was as follows:

Chairman of ORCO
Ing. Emil Holan
Member of the Board of Directors, in charge of the Risk Management division

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

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Members of ORCO
Ing. Roman Somol, MBA
Head of the Banking Risk Management department

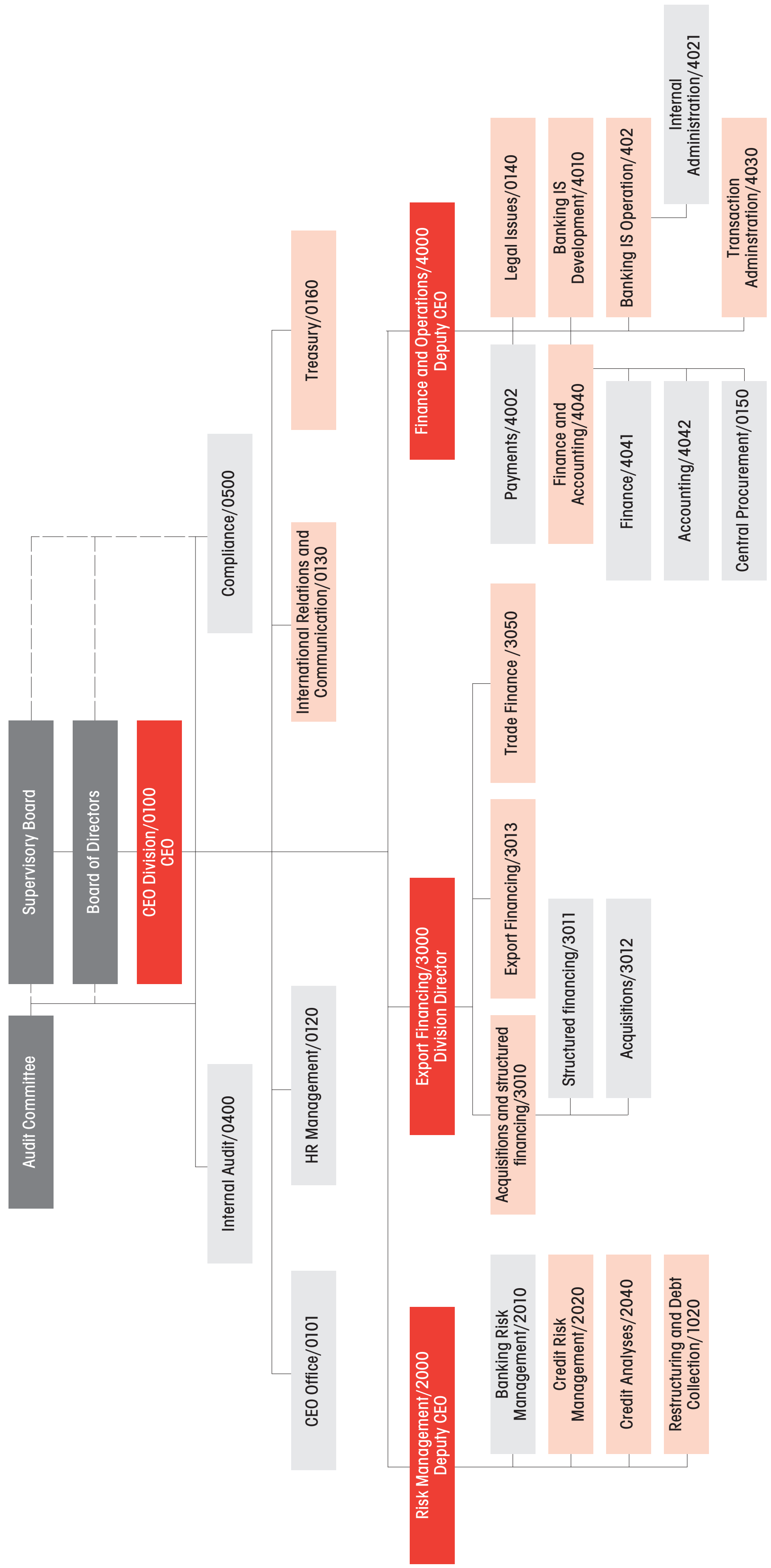
Ing. Miloš Welser
Deputy Director of the Export Financing division

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

Mgr. Ondřej Zemina
Head of the Compliance department

Ing. Pavel Kašpar
Director of the Banking IS Operations division *until 31 December 2019*

1.6. Organisational Structure



Section Division Department

Organisational Structure of Česká exportní banka, a.s. effective since 1 May 2019

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; and

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

Report of the Board of Directors

2

2 | Report of the Board of Directors on the Bank's Business Activities and its Assets and Liabilities in 2019

2.1. Overview of the Bank's Business Activity

2.1.1. Export Financing

Support of Czech producers, exporters and outbound investors realised through export financing products introduced in accordance with the definitions set by Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support, represents ČEB's key business activities. The strategy of ČEB is to fill the market gap of export financing identified by Czech companies as applicants for supported financing.

2019 was a successful year both in terms of achieved results in export financing and in terms of the deeper involvement of ČEB in systematic state support of Czech businesses in the innovation strategy of the Czech Republic for 2019-2030, Czech Republic – The Country for the Future. The principal objective of the strategy is to simplify the access of firms to offered state support by creating connecting product chains or use of synergy of shared products and services for the support of Czech businesses. All activities are prepared in agreement of all key partners, national brands and synergistic cooperation for clear and dignified communication towards the citizens of the Czech Republic and profiling of state priorities towards foreign countries. Businesses get an opportunity to better grasp the services of individual organisations and obtain access to public support and financing more easily. The vision of the strategy consists in facilitating the operations of Czech companies thanks to the comprehensive support starting from the idea, its implementation or potential innovation, to the manufacturing and export stage.

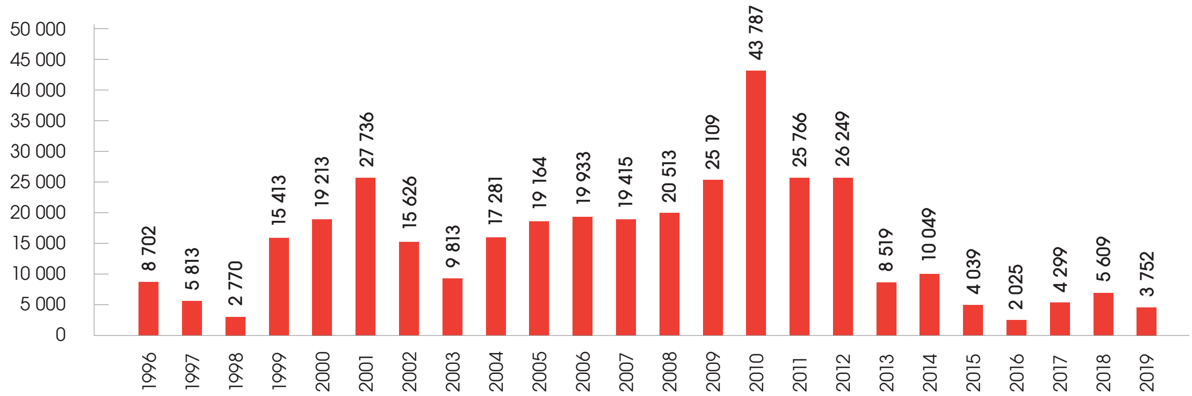
In September 2019, the Supervisory Board of ČEB approved the Strategy of Česká exportní banka, a.s. for 2019-2020 which puts emphasis on the following issues in export financing:

- Active cooperation and partnership with the commercial banking sector in large volume export transactions;
- Focus on emerging market gaps, including industrial sectors that have, to a considerable extent, limited access to financing due to corporate policies of commercial banks (primarily power industry, aviation and security and defence industry);
- Active role in transactions on the sovereign risk basis in regions where debtors prefer a state institution as a counterparty;
- Maximum support for exporters in territorial diversification of their export activities and entry to non-European markets (with focus on Southeast Asia, Africa and Latin America territories);
- Support for exporters in their investment activities on export markets;
- Support of research and development aiming to increase the share of exports with higher added value.

The implementation of the above strategy in export financing will continue to determine ČEB's objectives in 2020.

Since 2017, the increased demand for state supported export financing products has been stabilised. This trend was followed by a positive development in terms of the volume of demand of Czech manufacturers for export, exporters and outbound investors for state supported export financing products within the market gap satisfied by ČEB in 2019. To evaluate the overall result of ČEB in supporting exports, the relevant issue is not the volume of new products of supported financing recorded by ČEB in 2019 and shown below (Figure 1), but rather the overall volume of transactions taking into account transactions implemented by syndication products with the participation of ČEB in cooperation with the commercial banking sector (refer to comments below in the text).

Volume of signed contracts between 1996 and 2019 (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 products of supported financing provided pursuant to contracts concluded in 2019 amounted to CZK 3,752.36 million, in terms of new transactions 81 new products were concluded for the support of producers, exporters and outbound investors. Of the total volume of ČEB's new products of supported financing, approximately 52% are two large volume significant export transactions implemented in line with ČEB's strategy by syndication products in cooperation with the commercial banking sector, both Czech and foreign.

Taking into account the volume of supported financing-both in the form of bilateral transactions of ČEB and the total volume of supported financing implemented with the participation of ČEB in banking clubs, the total volume of supported financing with the involvement of ČEB was CZK 7,614.14 million

The result for 2019 is positive in comparison with 2018 in respect of the number of Czech companies as applicants for supported financing that were provided with funding from the Bank; there were 29 such companies, representing a 4% year-on-year increase. The number of Czech companies as applicants for supported financing saw a significant increase; of the total number of included applicants, 16 newly supported legal entities from the Czech Republic received funding from the Bank, which is an increase of 33% compared to the result in 2018.

The Bank's transactions comprising insurance from Exportní garanční a pojišťovací společnosti, a.s. (hereinafter "EGAP") represent approximately 56.01% of the volume of new products and 11.11% 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 3,701.24 million in 2019.

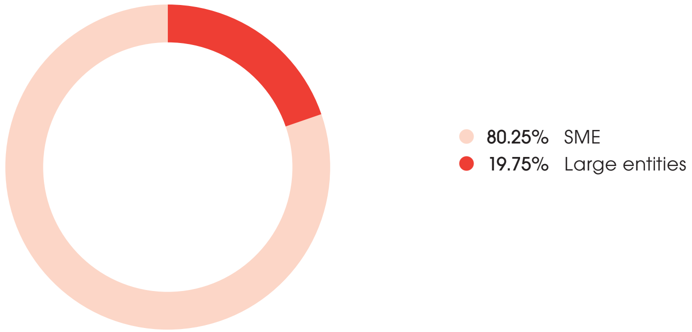
In 2019, the Bank continued the traditional support of small and medium-sized enterprises (SME) which prioritises, in addition to the financing and issuing of guarantees, primarily the provision of comprehensive support to business entities. A significant role is played not only by the numbers and volumes of transactions, but also advisory in structuring and export orders or supplies of manufacturers from the SME segment as sub-suppliers for large Czech exporters.

During 2019, 65 new loan and guarantee agreements were concluded for the support of exporters and manufacturers from the SME segment in the total volume of approximately 1,054.03 million.

Compared to 2018, support to Czech SMEs decreased by approximately 14.03% in terms of the volume of contracts, the number of contracts accounted for 74.71% of the result of 2018.Of the 65 transactions for SMEs, transactions comprising EGAP insurance accounted for approximately 1.54% (64.15% in terms of the volume of transactions), while transactions without EGAP insurance accounted for 98.46% (35.85% in terms of the volume of transactions).

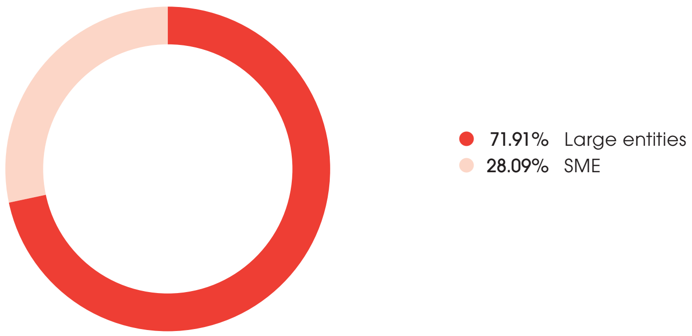
The number of contracts supporting SMEs accounts for 80.25% of the total number of 81 new contracts concluded with manufacturers for export, exporters and outbound investors in 2019 (Figure 2) and for 28.09% of their total volume (Figure 3).

Proportion of the number of contracts with SMEs and contracts with large entities concluded in 2019 | Figure 2



Source: ČEB

Proportion of the volume of contracts with SMEs and contracts with large entities concluded in 2019 | Figure 3



Source: ČEB

The remaining 19.75% of the number of contracts signed with the total volume amounting to CZK 2,698.33 million relates to 16 new loan and guarantee transactions concluded to support manufacturers for export, exporters and investors from the Mid Cap and Large Entities segments. Of the 16 transactions, transactions comprising EGAP insurance accounted for 50% (52.8% in terms of the volume of transactions), while transactions without EGAP insurance accounted for 50% (47.17% in terms of the volume of transactions).

The ČEB's strategic focus is the provision of supported financing products relating to the financing of the Czech export of goods, services and capital to countries that are of export interest to Czech exporters and outbound investors, within the market gap of ČEB identified by exporters and investors. These include financing and guarantees with acceptable risk profile, both to countries with higher and high territorial risk and low territorial risk, every year always depending on the demand of Czech exporters and investors in relation to the direction of their export contracts and investment plans.

The support of ČEB to Czech exporters and investors in the territorial diversification of their export and investment activities results in a rather wide range of export target countries in 2019, specifically 25 territories (Table 1) of which, according to the volume of new contracts in 2019, approximately 34% is Turkey, approximately 19% the Russian Federation which received exports supported by 9 products (non-payment guarantees, partial redemptions and a loan for financing of production for export). The third most significant territory is Senegal with the share of approximately 18% (the result was impacted by the share of ČEB in direct export buyer credit in the form of club financing in cooperation with a Czech financial institution). The remaining 22 territories account for 28.93% in the aggregate amount (this volume was achieved by 69 contracts in the form of products involving loans for financing of production for export, non-payment guarantees, direct export supplier loan, partial redemptions, loan for outbound investments, confirmed letters of credit).

Table 1

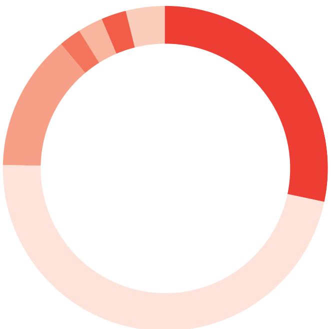
Share of export target countries by volume of new contracts concluded in 2019

Turkey	33.96%	Kazakhstan	0.08%
Russsia	19.09%	Philippines	0.07%
Senegal	18.02%	Poland	0.07%
Slovakia	12.35%	Saudi Arabia	0.07%
Iraq	7.72%	Jordan	0.05%
Ukraine	4.07%	Armenia	0.04%
Ghana	2.75%	Mexiko	0.04%
Kyrgyzstan	0.60%	France	0.03%
Rwanda	0.46%	Chile	0.03%
Georgia	0.17%	Italy	0.02%
Peru	0.10%	Egypt	0.02%
Netherlands	0.09%	Cuba	0.01%
Germany	0.09%		

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 46.91%.

Share of the products of supported financing in the number of agreements concluded in 2019 | Figure 4

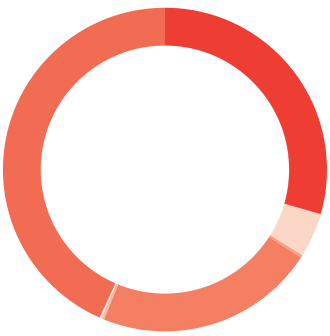


46.91% Purchase of receivable
28.40% Non-payment guarantee
13.58% Direct export supplier loan
3.70% Loan for outbound investments
2.47% Direct export customer loan
2.47% Loan for the funding of export production
2.47% Confirmed letter of credit

Source: ČEB

The dominant product in the structure of provided products in terms of volumes (Figure 5) in 2019 was the direct loan for outbound investments, corresponding to three provided loans of this type, the club direct loan for outbound investments to Turkey (two products in one loan contract) and a bilateral loan for outbound investments to Slovakia.

Share of products of supported financing in the volume of agreements concluded n 2019 | Figure 5

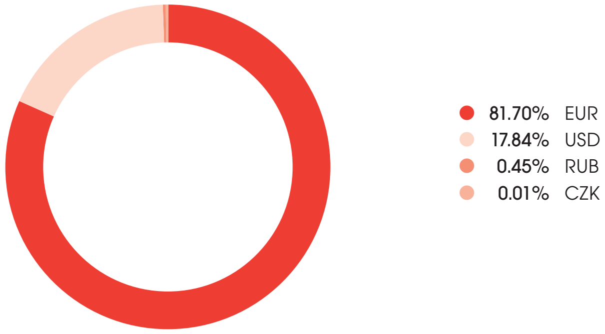


43.40% Loan for outbound investments
29.49% Non-payment guarantee
21.90% Direct export customer loan
4.54% Purchase of receivable
0.29% Loan for the funding of export production
0.23% Direct export supplier loan
0.15% Confirmed letter of credit

Source: ČEB

In terms of currency structure (Figure 6), the dominant currency in 2019 was EUR with the share of 81.70% followed by USD with the share of 17.854%.

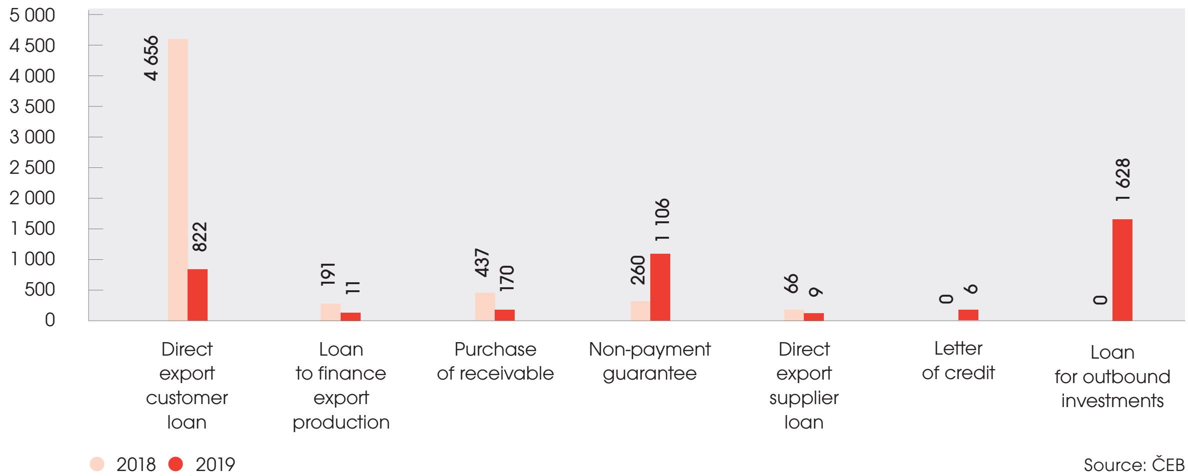
Currency structure of new transactions volume in 2019 | Figure 6



Source: ČEB

The year-on-year comparison (Figure 7) shows a noticeable increase in volumes of the direct loan for outbound investments, three products were provided in 2019, however, their aggregate volume was considerable. The second group significant in terms of volume is the non-payment guarantee product, there were a total of 23 products provided for the support of export to 13 countries.

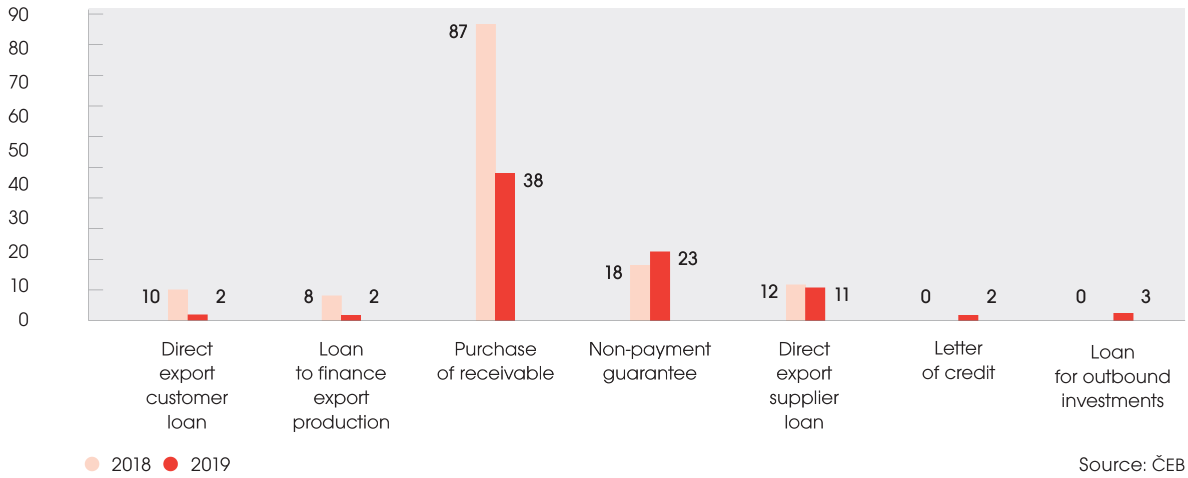
Year-on-year comparison of the development in the volume of new contracts by products (in CZK mil.) | Figure 7



Source: ČEB

Even though the year-on-year comparison shows a lower volume of the direct export customer loan pursuant to demands of Czech exporters, this product continued to be the third most significant product group in 2019. In terms of product frequency, the most significant category was the purchase of receivables followed by the non-payment guarantee product (Figure 8).

Year-on-year comparison of the development in the number of new contracts by products | Figure 8



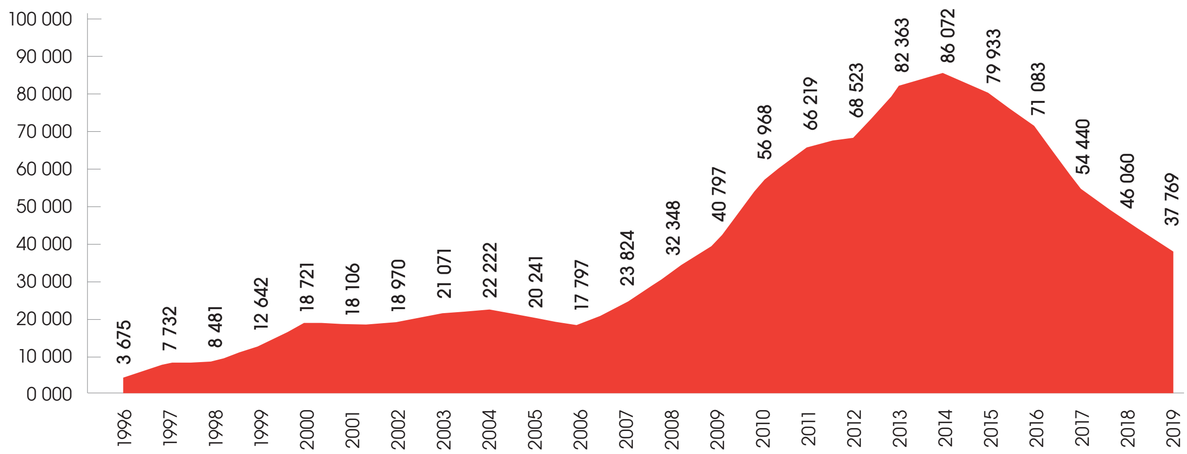
Source: ČEB

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 8,291 million to CZK 37,769 million, ie by 18%, as of 31 December 2019 (Figure 9).

As of 31 December 2019, the total principal amount of provided loans and purchased receivables represented 86% of total assets.

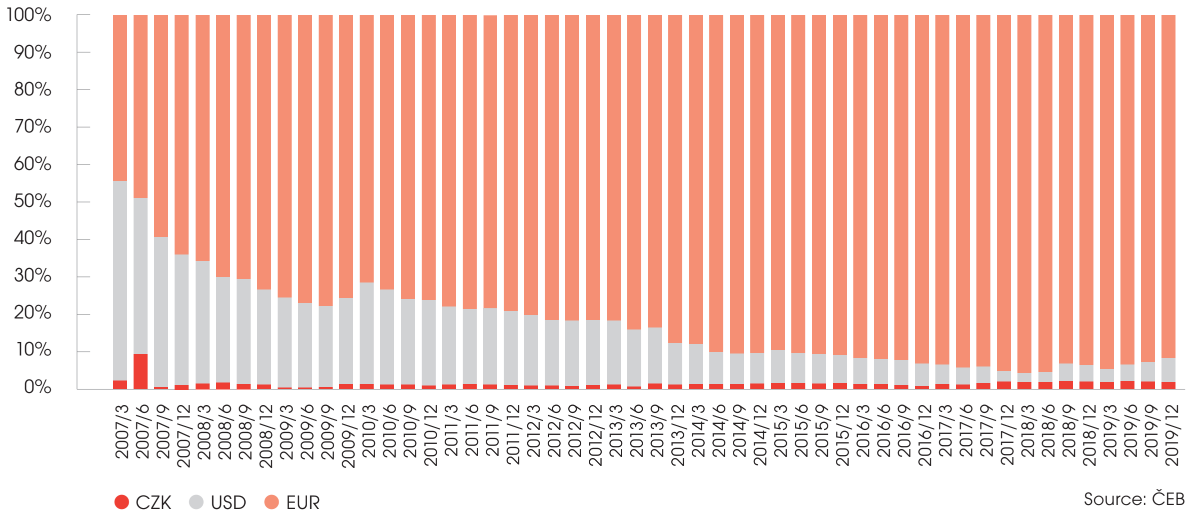
Loan principal balance 1996-2019 (CZK mil.) | Figure 9



Source: ČEB

In respect of the principal structure of provided loans by contractual currency, loans denominated in EUR represent 91.03% (2018: 92.9%), loans provided in USD represent 6.28% (2018: 4.4%) as of 31 December 2019 (Figure 10). The portion of loans provided in CZK recorded only a slight year-onyear increase to 2.69% (2018: 2.6%).

Loan portfolio – structure by currency – proportion development | Figure 10



Source: ČEB

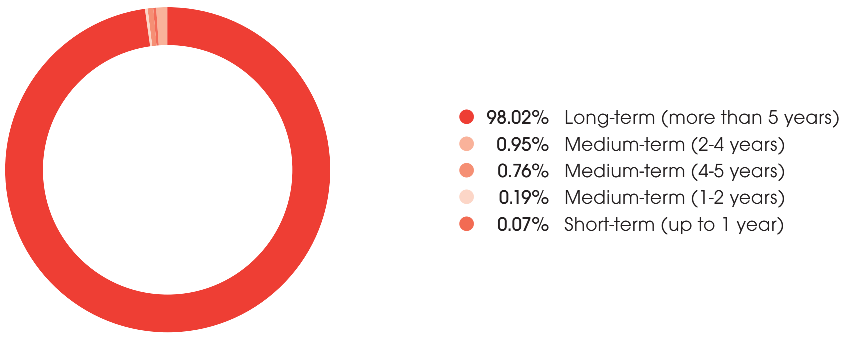
The total principal amount of loans provided in EUR during 2019 decreased year-on-year by approximately EUR 311.1 million to a total of EUR 1,353 million, ie by 18.70%. Apart from continuous payment of loans and drawing of new loans, the decrease was influenced by the write-off of receivables upon the receipt of insurance benefits.

The total principal amount of loans provided in USD during the same period increased by USD 13.8 million to a total of USD 104.8 million, ie by 15.16%.

The total principal amount of loans provided in CZK during the same period decreased by CZK 188.1 million to a total of CZK 1,017.6 million, ie by 15.60%.

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 11).

Loan portfolio (principal) – broken down by contractual maturity as of 31 December 2019 | Figure 11



Source: ČEB

2.1.3. Key Markets on which Česká exportní banka, a.s., Operates

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

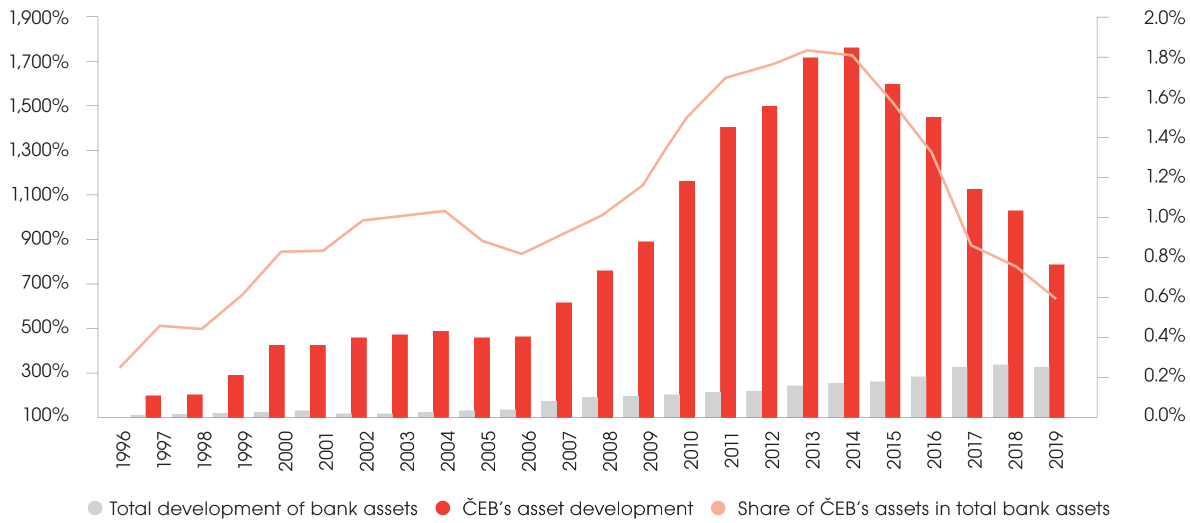
Compared to other banks operating in the Czech banking sector, ČEB is considered a small size bank. ČEB's share of the total balance sheet assets of banks in the Czech Republic decreased year-on-year. During 2019, the share dropped from 0.78% to 0.6258%. The decrease is consistent with the Bank's focus on the support of exporters upon entry to new markets and export in sectors that are not easy to be financed by commercial banks. In addition, management of the Bank continues its efforts to increase the quality of the loan portfolio.

Table 2

(in CZK mil.)	2018			2019		
	Total banks	ČEB	Share of ČEB	Total banks	ČEB	Share of ČEB
Total balance sheet assets	7 331,916	57,446	0.78%	7 621,841	43,876	0.58%

Source: Czech National bank and ČEB

Development in the share of ČEB in the Czech banking sector (assets in 1996 = 100%) | Figure 12



Source: ČEB and Czech National Bank

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 No. 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. These data are compared with the nominal values of loans provided by ČEB. 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

		2018			2019	
Client loans – by maturity (in CZK mil.)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**Banks total**
Balance of client loans and receivables	3 306,450	45,742	1.4%	3 450,284	37,652	1.1%
Of which in CZK	2 652,676	1,206	0.0%	2 778,366	1,018	0.0%
Of which short-term loans (up to 1 year)	247,856	2	0.0%	247,856	1	0.0%
Medium-term loans (1–5 years)	256,908	308	0.1%	286,260	260	0.1%
Long-term loans (over 5 years)	2 147,915	896	0.0%	2 250,501	757	0.0%
Of which in foreign currency	653,773	44,536	6.8%	671,919	36,634	5.5%
Of which short-term loans (up to 1 year)	121,829	55	0.0%	119,611	49	0.0%
Medium-term loans (1–5 years)	170,203	222	0.1%	183,356	319	0.2%
Long-term loans (over 5 years)	361,742	44,259	12.2%	368,952	36,266	9.8%

Source: ČEB

Table 4

		2018			2019	
Client loans to residents – by purpose (in CZK mil.)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**Banks total**
Total in CZK + foreign currency, only residents	ČNB ARAD	ČEB reports		ČNB ARAD	ČEB reports	
Balance of resident loans and receivables						
(all currencies)	2 981,259	1,402	0.0%	3 130,454	1,186	0.0%
Of which total other loans	1 188,702	1,402	0.1%	1 223,965	1,186	0.1%
Of which investment	742,380	152	0.0%	766,061	153	0.0%
Total current assets, seasonal costs, export, import	296,179	1,240	0.4%	309,364	1,025	0.3%
Total other loans (financial and special purpose)	90,665	4	0.0%	91,068	4	0.0%
Total trade receivables	25,804	6	0.0%	22,588	4	0.0%

Source: ČEB

Table 5

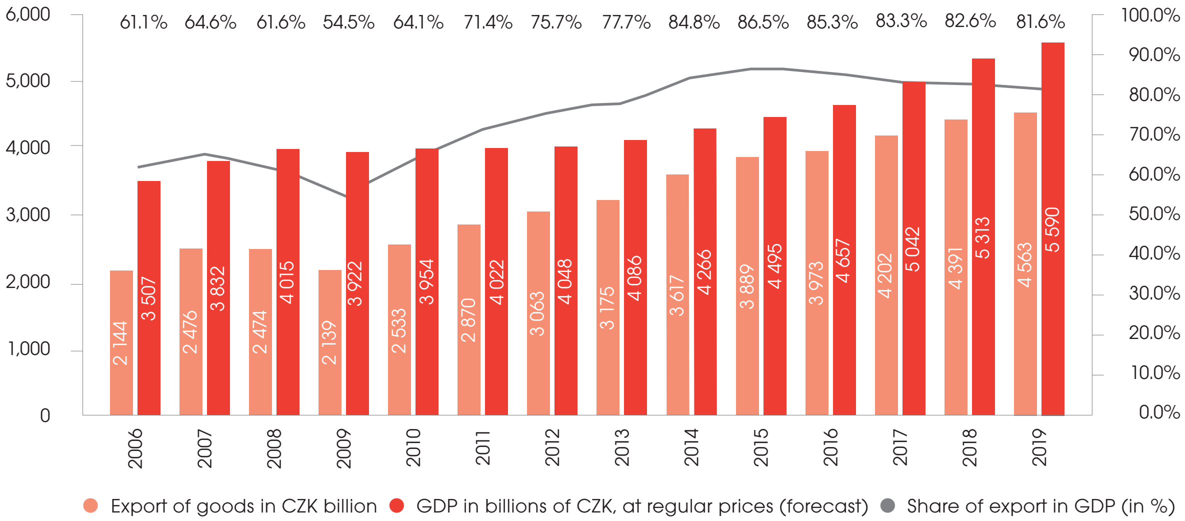
		2018			2019	
Client loans to non-residents – by purpose (in CZK mil.)	**Banks total**	**ČEB**	**ČEB share**	**Banks total**	**ČEB**	**Banks total**
Total in CZK + foreign currency, only non-residents	ČNB ARAD	ČEB reports		ČNB ARAD	ČEB reports	
Balance of non-resident loans and receivables (all currencies)	325,191	44,340	13.6%	319,830	36,466	11.4%
Of which total other loans	287,736	44,340	15.4%	276,828	36,466	13.2%
Of which investment	122,257	11	0.0%	116,670	1,497	1.3%
Total current assets, seasonal costs, export, import	94,602	44,215	46.7%	85,453	34,903	40.8%
Total other loans (financial and purpose)	47,455	0	0.0%	49,537	0	0.0%
Total trade receivables	2,012	114	5.7%	2,042	66	3.2%

Source: ČEB

b) Breakdown of Czech export and the Bank's state support in 2019 by territory GDP and export

The year 2019 experienced continuous growth of exports, which has been a very significant component in generating the gross domestic product.

Export – significant component of GDP | Figure 13



Source: Czech Statistical Office, Ministry of Finance

The exports increased in absolute terms in 2019 in all monitored groups of countries, except for CIS countries which saw a decrease.

Table 6

	Czech Republic's exports in CZK billion		Share in total Czech Republic's exports	
	2018	2019	2018	2019
Neighbouring countries	2,215	2,266	50.5%	49.7%
EU 15 countries	2,806	2,874	63.9%	63.0%
EU 28 countries	3,692	3,841	84.1%	83.6%
CIS countries	143	123	3.3%	2.7%
European transitory economies	26	27	0.6%	0.6%
Developing economies	170	177	3.9%	3.9%
Other advanced market economies	215	232	4.9%	5.1%

Source: Czech Statistical Office

Based on the analysis of the Czech exporters' performance with regard to the target countries whose share of the aggregate Czech exports exceeds 1%, it should be noted that only minimal year-on-year changes occurred. Slovakia, Turkey, Indonesia, and Azerbaijan are the countries that constitute nearly a 95% 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%.

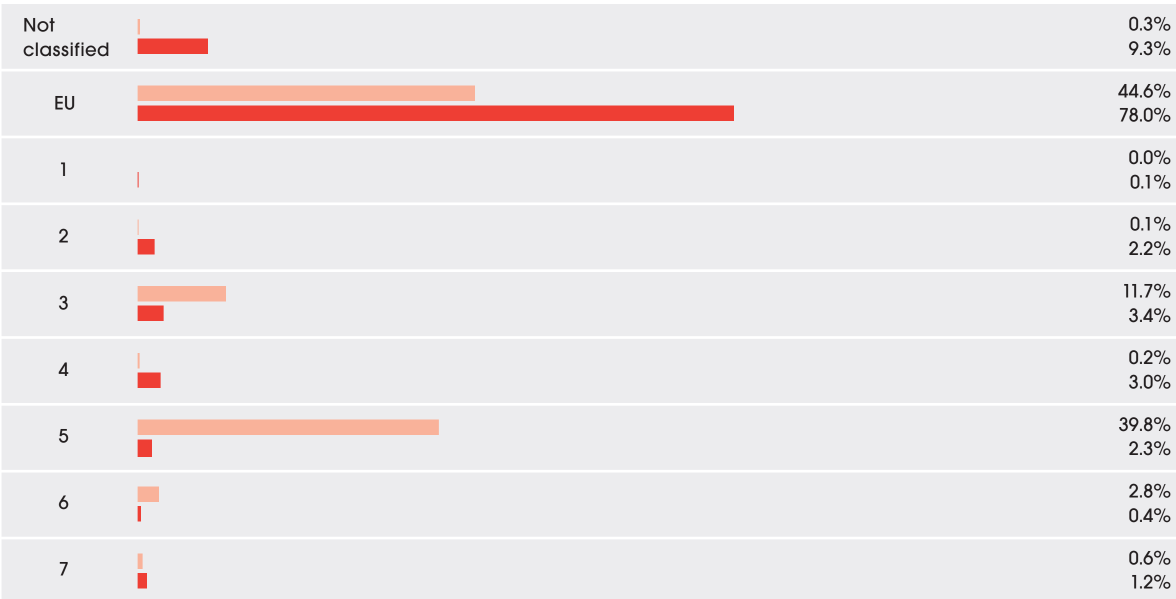
Table 7

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	32.4	31.8	(0.6)
Slovakia	7.6	7.6	0.0
Poland	6.0	6.0	0.0
United Kingdom	4.7	4.5	(0.2)
France	5.1	5.1	0.0
Austria	4.5	4.3	(0.2)
Italy	3.9	3.8	(0.1)
Netherlands	3.7	3.8	0.1
Hungary	3.0	3.3	0.3
Spain	3.0	3.2	0.2
USA	2.1	2.3	0.2
Russian Federation	2.0	2.2	0.2
Belgium	2.1	2.1	0.0
Sweden	1.7	1.6	(0.1)
Romania	1.5	1.5	0.0
Switzerland	1.4	1.5	0.1
China	1.3	1.2	(0.1)
Turkey	1.1	1.0	(0.1)

Source: Czech Statistical Office

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

Comparison of the Structure of the Czech Republic's Exports and ČEB's Loan Portfolio in 2019 by Country Risk Classification (OECD Classification as of 31 December 2019) | Figure 14



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

Source: ČEB, Czech Statistical Office 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 31.55 billion (EUR 1.2 billion) was drawn under the EMTN Programme as of 31 December 2019. 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 2019 is disclosed in the Notes to the financial statements. As a result of low borrowing needs in 2019, 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 2019, 25 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. During the year, Moody's improved its rating by one degree and adjusted the outlook to stable. As of 31 December 2019, the Bank's outstanding bonds have the following ratings:

Table 8

Standard & Poor's		Moody's	
Foreign currency – long-term payables	AA-	Senior unsecured debt	Aa3
Local currency – long-term payables	AA	Issuer's rating	Aa3
Short-term payables	A-1+	Short-term payables	P-1
Outlook	stable	Outlook	stable

Source: ČEB

2.1.4. Newly Introduced Products and Activities

ČEB's mission, in compliance with the objectives of the economic policy of the Czech Republic, is to strengthen the internationalisation of Czech companies and the competitiveness of Czech export. For this reason, ČEB offers products and services to exporters and suppliers for export that allow them to be part of the competition on the international market under the conditions comparable to those of foreign competitors. The Bank offers products and services to Czech outbound investors that allow for the internationalisation of their business activities and direct presence on international markets.

The continuous development in the Bank's product offer in 2019 was reflected in the record number of exporters that newly received funding from the Bank.

In 2019, ČEB was an active partner to the Ministry of Trade and Industry and the Ministry of Finance in the preparation of amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support, which is essential for the further development of supported financing instruments and insurance of export credit risks. The objective of these efforts is to improve the product offer to the level obtained by national exporters in the product offer of advanced Export Credit Agencies (ECA) and consequently increase the ability to flexibly respond to the developing needs of Czech exporters and suppliers for export in the area of export financing. Specifically, these include the following:

- Re-financing and direct financing of investments in modernisation of export capacities;
- Supporting Czech exporters and suppliers for export acting as nominated sub-suppliers under foreign contracts;
- Supporting exporters in their investment activities on export markets;
- Expansion of product offer in exploration of foreign markets; and
- Financing of the introduction of new results of research and development into production

2.1.5. Financial Results, balance of Assets and Liabilities

Balance of assets and liabilities

ČEB's total assets amounted to CZK 43,876 million in 2019, which represents a year-on-year decrease of 23.6%. 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, payables to credit institutions and to non-credit institutions, which represent over 82.2% 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 2019, they amounted to CZK 31.782 million. The volume of issues decreased by 18.8% year-on-year. In 2019, the Bank continued to actively use its ECP Programme for the issuance of securities within 1Y maturity. The Bank has increased its funding base by loans received from financial institutions and interbank deposits. At the end of 2019, funding in this form totalled CZK 1,768 million. The volume of deposits received from non-banking entities was CZK 2,529 million which represents a year-on-year increase of 162%.

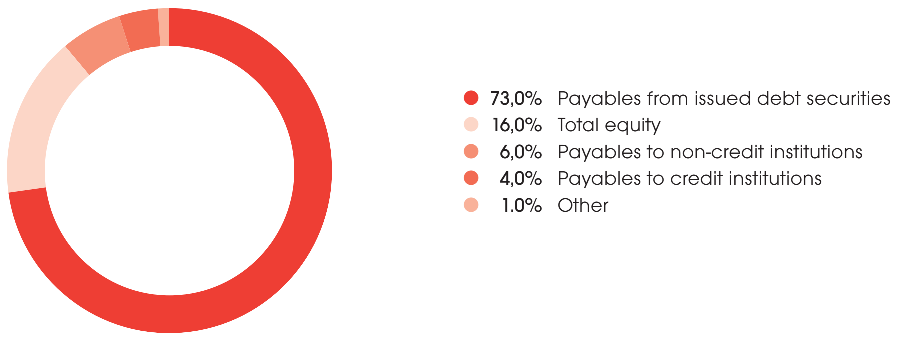
The Bank reported equity in the total volume of CZK 7,171 million. In line with IFRS rules, valuation differences on the revaluation of liabilities arising from interest rate swaps, which are used by the Bank for managing its interest rate risk, are recognised in equity.

Table 9

LIABILITIES AND EQUITY In CZK million	**2019**	**2018**	Year-on-year Index in %
Derivatives held for trading	110	120	91.67
Financial liabilities at amortised cost	36,079	46,010	78.42
Of which: Payables to financial institutions	*1,768*	*5,915*	29.89
Payables to non-banking entities	*2,529*	*965*	262.07
Payables from issued debt securities	*31,782*	*39,130*	81.22
Hedging derivatives	24	111	21.62
Other liabilities	294	4,021	7.31
Reserves	198	116	170.69
Total liabilities	**36,705**	**50,378**	**72.86**
Share capital	5,000	5,000	100.00
Valuation differences	29	(8)	x
Reserve funds	791	773	102.33
Other special-purpose funds from profit	1,285	1,078	119.20
Accumulated loss brought forward (IFRS 9 implementation)	0	(127)	0.00
Profit or loss for the reporting period	66	352	18.75
Total equity	**7,171**	**7,068**	**101.46**
Total equity and liabilities	**43,876**	**57,446**	**76.38**

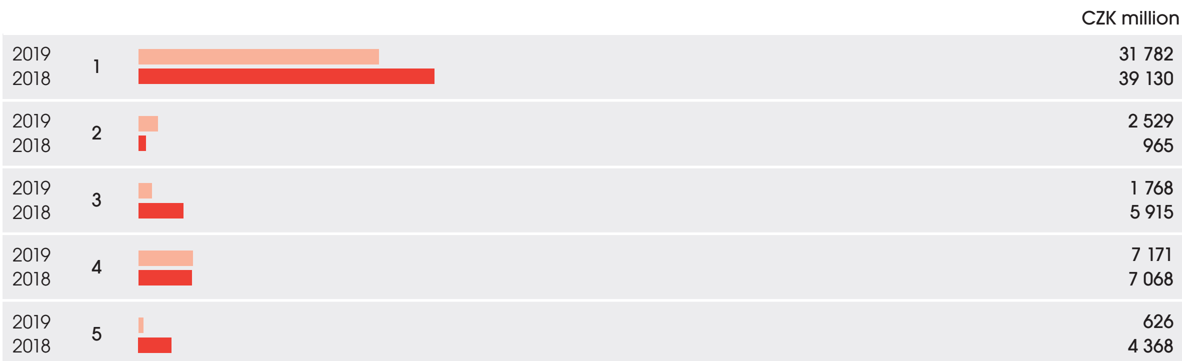
Source: ČEB

Liabilities in 2019 | Figure 15



Source: ČEB

Liabilities – Development in principal categories 2019/in 2018-2019 | Figure 16



Source: ČEB

1 Payables from issued debt securities
2 Payables to non-credit institutions
3 Payables to credit institutions
4 Total equity
5 Other

Use of Funds

Assets predominantly include loans and receivables at amortised cost which amounted to CZK 37,991 million and account for 86.6% of total assets. Of this amount, 84.7% (CZK 32,162 million) are receivables from non-credit entities. They decreased year-on-year by 20%. Receivables from financial institutions decreased by 49% to CZK 5,829 million in 2019.

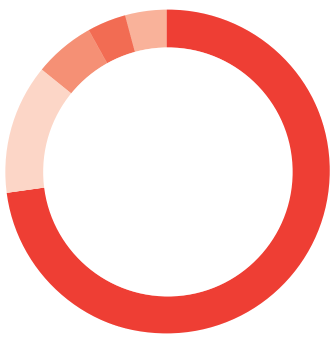
Temporarily available funds denominated in foreign currencies that are not used for loans are placed on the interbank market in the form of short-term deposits, a portion of which is used for funding the liquidity reserve held consisting of foreign securities. In line with the Bank's strategy, funds from equity represent a liquidity reserve in the form of high-quality and liquid securities, primarily local but also foreign. The volume of the liquidity reserve held in securities totalled CZK 3,417 million at the year-end. Non-invested capital funds are valorised on the interbank market and through reverse repurchase transactions with the central bank.

Table 10

ASSETS In CZK million	**2019**	**2018**	Year-on-year Index in %
Cash and deposits with the central banks and other deposits due on demand	1 161	60	1 935,00
Debt securities at FVOCI	1 821	2 033	89,57
Financial assets at amortised cost	39 587	53 726	73,68
Of which Debt securities at amortised cost	*1 596*	*1 636*	*97,56*
Loans and receivables at amortised cost	*37 991*	*52 090*	72,93
Of which Amounts due from credit institutions5 829	*5 829*	*11 913*	*48,93*
Amounts due from entities other than credit institutions	*32 162*	*40 177*	*80,05*
Hedging derivatives	0	3	0,00
Tangible assets	124	28	442,86
Intangible assets	33	54	61,11
Other assets	965	1 367	70,59
Current tax receivable	154	154	100,00
Deferred tax asset	31	21	147,62
Total assets	**43 876**	**57 446**	**76,38**

Source: ČEB

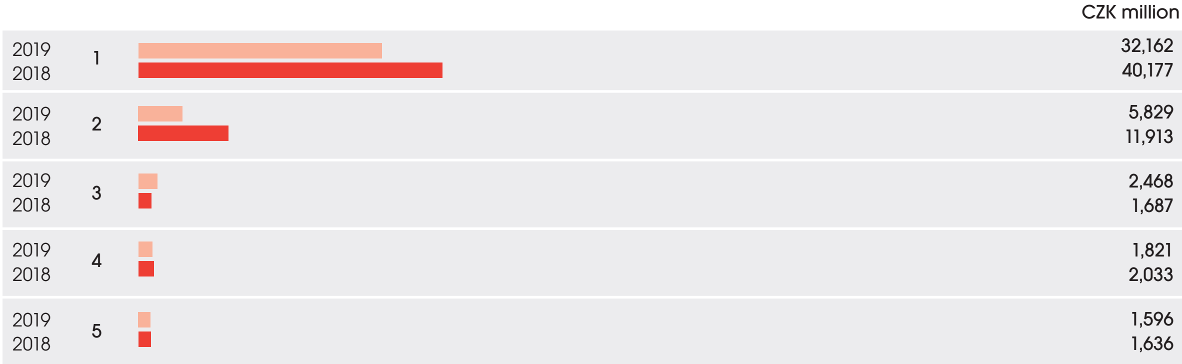
Assets 2019 | Figure 17



- 73,0 % Receivables from non-banking entities
- 13,0 % Receivables from credit institutions
- 4,0 % Debt securities at fair value
- 4,0 % Debt securities at nominal value
- 6,0 % Other

Source: ČEB

Assets – Development in principal categories 2019/in 2018-2019 | Figure 18



1 Receivables from non-credit entities
2 Receivables from credit institutions
3 Other
4 Debt securities at fair value
5 Debt securities at nominal value

Source: ČEB

Generation of Profit

In 2019, ČEB generated a gross profit of CZK 48 million. After adding the deferred tax of CZK 18 million, the Bank reported a profit after tax of CZK 66 million.

In the course of its business activities in 2019, the Bank reported interest income in the aggregate amount of CZK 1,304 million, i.e. a year-on-year decrease of 37.6% (2018: part of the loan portfolio was repaid early). The Bank raises the funds necessary for its business activities from capital markets. In 2019, interest expenses associated with such funds amounted to CZK 751 million, which is a yearon-year decrease of 33.1%. The year-on-year decrease in funding expenses is predominantly attributable to decreased funding needs and the settlement of bonds. Net interest income for 2019 amounted to CZK 553 million, which is a year-on-year decrease of 43%.

Net income from fees and commissions amounts to CZK 4 million. Other significant components of the financial result include profit from financial transactions of CZK 45 million and other operating income of CZK 6 million in 2019.

For its operations, the Bank incurred expenses in the amount of CZK 357 million, including administrative expenses of CZK 281 million, depreciation of tangible and intangible assets in the amount of CZK 73 million and other operating expenses in the amount of CZK 3 million.

The costs of provisions, allowances and write-off of receivables amounted to CZK 203 million.

The loss arising from the operation of long-term supported exports financing in line with Act No. 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 2019, ČEB did not assert its claim to the subsidy; instead, it generated a profit from this activity of CZK 15.5 million, which is part of the Bank's total profit for 2019 before tax.

Table 11

PROFIT/LOSS In CZK million	**2019**	**2018**	Year-on-year Index in %
Interest income	1,304	2,091	62.36
Interest expenses	(751)	(1,122)	66.93
Net interest income	**553**	**969**	**57.07**
Net fee and commission income	**4**	**8**	**50.00**
Net profit/loss from financial transactions including state subsidy	45	(74)	x
Other operating income	6	8	75.00
Other operating expenses	(3)	(47)	6.38
Profit or (-) loss from operating activities	**605**	**864**	**70.02**
Administrative costs	(281)	(308)	91.23
Depreciation and amortisation	(73)	(47)	155.32
Profit or loss from modification	(1)	–	x
Losses from impairment of financial assets not reported at fair value through profit	(96)	(367)	26.16
Recognition of provisions or their reversing	(106)	81	x
Profit before tax	**48**	**223**	**21.52**
Income tax	18	129	13.95
Net profit/loss for the period	**66**	**352**	**18.75**

Source: ČEB

2.2. Factors Having an Impact on ČEB's Business and Financial Position in 2020

The Bank's activities in 2020 and its business and financial position will be affected by the following factors:

- Development of the global economy may be affected by several risk factors, such as prices of commodities, primarily crude oil, which reflect the safety conditions in the Middle East, increased volatility and in particular the spread of various pandemic viral diseases.
- Given the very fast global spread of the COVID-19 infection, it is currently very difficult to predict the economic, social and other negative impacts on the global and Czech economy, including the impacts on the future balance and revenues of ČEB. It may be expected that the current macroeconomic prediction of the growth rate of world economies, development of interest rates, exchange rates, and prices of shares, bonds and commodity assets will be considerably revised.
- ČEB closely monitors the situation regarding the viral infection and adopts preventative measures. The business continuity management plan has been updated to ensure the Bank's operation.
- ČEB is a special bank owned by the state, whose mission is to support the Czech export. For this reason, it is prepared to utilise its product offering so that Czech exporters can have an opportunity to eliminate the negative financial impacts caused by the current uncertainties on international markets. Export may also be supported by a potential depreciation of the Czech crown following the decision of the Czech National Bank to decrease the two-week repo rate by 50 bps to 1.75%.
- Very strong dependence of the Czech economy on the EU and predominantly Germany creates pressure on manufacturers and exporters, primarily in the automotive industry (including the impact of electromobility), where a decline in orders has been recorded by companies which are involved in this sector as sub-suppliers. The pressure on wage increase will ease in the entire economy.
- A risk factor for the export-focused Czech Republic results from any form of trade wars and protectionism, primarily between the United States and their business partners (China, European Union).
- From a business perspective, or impacts on the Czech export, the form of Brexit that will most likely happen at the end of January 2020 and the length and results of negotiations on an agreement with the EU will play a significant role. Brexit should be seen both as a risk considering the significant position of the British market in Czech exports as well as an opportunity for future projects.
- In the second half of 2020, the European Union will be presided by Germany which may intensify discussion on certain key issues, be it migration policy (increasing risks on the Greece-Turkey border) or climatic changes

which have an impact on the direction of the EU and achieving the "green" objectives of the new European Commission, which are rather ambitious in this area and create pressure on structural changes in the global economy.

- In the United States, the presidential election will be held in November 2020. The result of the election may significantly impact further negotiation with China and the European Union on setting mutual business relationships, as well as the course of certain international conflicts.
- The development in the world economy may be impacted by other factors, such as the spreading of various pandemic virus diseases, or prices of commodities, primarily crude oil, which reflect the security situation in the Middle East.
- The final wording of the prepared amendment to Act No. 58/1995 Coll., on Insurance and Financing of Exports with State Support, will impact the position of ČEB in instruments of state support of export. The essential aspect in this respect will be the possibilities for expansion of products offered to Czech exporters in the context of international competition and comparison with other ECAs (Export Credit Agencies), obtaining of funding for the Bank through the Ministry of Finance and involvement of the Bank in the central system of treasury liquidity.
- The final form of the prepared Economic Strategy of the Czech Republic until 2030 and Export Strategy of the Czech Republic which is supposed to contain a strong focus on the industry sector, and potential new regulatory requirements for the banking sector, will be important for the Bank's operations.

Goals for 2020 in the business and financial area

- Implement the export strategy of the Czech Republic for 2012-2020 and the Bank's updated strategy for 2019-2020.
- The mission of the Bank, in line with the objectives of the economic policy of the Czech Republic, involves the strengthening of internationalisation of Czech companies and competitiveness of the Czech export. Although the generation of profit is not its priority, the Bank anticipates generating profit in 2020.
- 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. These may be promising countries with higher risk profile as rated by OECD; however, these must always be profitable transactions.
- An active cooperation and partnership with the commercial banking sector in large volume export transactions or in the provision of refinancing loans.
- Maximise support for Czech exporters and suppliers for export 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 countries in Africa, Latin America and Southeast Asia and gradually eliminate the current concentration risks.
- A significant role in sovereign risk-based transactions in regions where debtors prefer a state institution as a counterparty.
- Diversify client portfolio with a focus on entities to which ČEB has not provided its financial services through its products, or it did so a long time ago.
- Support research and development in order to increase the share of exports with higher added value.
- Stabilise the size of the balance sheet (total asset) sum and volume of loan principals on the level of allowing the Bank to have continued financing for its operating needs, generating a profit.
- Maintain the costs of the Bank on the level of the determined cost/income indicator.
- As in 2019, continue the significant decrease in the share of risk receivables incurred between 2007 and 2011 in the Bank's total loan portfolio.
- With respect to the state budget, minimise grant needs to settle loan losses on provided supported financing.
- Adhere to Government Resolution No. 839 of 25 November 2019 on ownership consolidation of institutions of the state support for export system.

Narrative Part

3

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 2019 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 2019, the Bank did not exceed the limit for large exposures. As of 31 December 2019, 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 credit 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 defining, measuring and 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 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
  - Change in Net Interest Income – NII

- Currency risk management
  - Analysis of currency sensitivity factors

- Aggregate market risk management
  - Economic Value of Equity (EVE) – ČEB uses the standard method (according to the Interest rate risk in the banking book standard of April 2016 recommended by Basel Committee on Banking Supervision), reflecting the update to regulations issued by EBA in 2018 (Guidelines on the management of interest rate risk arising from non-trading book activities).

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 2019, ČEB had no problems ensuring sufficient liquidity.

3.1.5. Operational Riskk

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 2019, 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 2019.

3.1.6. Capital Adequacy Requirements and Capital Requirements Ratios

Table 12

31 Dec 2019	CZK million
Capital	**7,069**
Tier 1 (T1) capital	7,069
Common equity tier 1 (CET1) capital	7,070
CET1 capital instruments	5,000
Accumulated other comprehensive income (OCI) and other provisions	2,104
Adjustments of the CET1 capital due to the utilisation of prudential filters	(2)
(-) Other intangible assets	(350)
Other temporary adjustments of the CET1 capital	318
Other deductions from the CET1 capital – methodology changes (transition to IFRS 9)	–

Table 13

31 Dec 2019		CZK million
	Risk exposure	**Capital requirement**
TOTAL	**8,202**	**657**
Total risk-weighted exposures in respect of credit risk under STA	6,759	541
Exposures in respect of central governments and central banks	421	34
Exposures in respect of institutions	2,535	203
Exposures in respect of enterprises	3,254	260
Default exposures	290	23
Other exposures	259	21
Total risk exposures in respect of position, foreign currency and commodity risks – currency transactions	–	–
Total risk exposures in respect of operational risk – BIA	1,383	111
Risk exposures in respect of credit risk adjustments to measurement tootal – standardised method	60	5

Table 14

31 Dec 2019	CZK million
Capital ratios	
Surplus (+) / shortage (-) of the CET1 capital	86.19
Surplus (+) / shortage (-) of the CET1 capital	6,700
T1 capital ratio	86.19
Surplus (+) / shortage (-) of the T1 capital	6,413
Total capital ratio	**86.19**
Total capital surplus (+) / shortage (-)	**6,413**
Total capital ratio SREP (TSCR)	*15.600*
TSCR – comprising CET1 capital	*10.200*
TSCR – comprising T1 capital	*13.600*
Overall capital requirement (OCR)	*18.976*
OCR – comprising CET1 capital	*13.576*
OCR – comprising T1 capital	*16.976*
Overall capital requirement (OCR) and the recommended capital planning reserve (P2G)	*18.976*
OCR and P2G – comprising CET1 capital	*13.576*
OCR and P2G – comprising T1 capital	*16.976*

3.2. Risk Factors Potentially Affecting the Capacity of the Bank to Meet its Liabilities to Investors Arising from Securities

The Bank's ability 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 2019, 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 by the General Meeting and subsequently assessed by ČEB's Supervisory Board. The performance criteria include business indicators (for 2019: total volume of new transactions, volume of loans drawn, number of all supported legal entities from the Czech Republic as applicants for supported financing and the number of newly supported legal entities from the Czech Republic as applicants for supported financing), indicators for the management and control system (for 2019: meeting the approved remedial measures of the type A and type B internal audit within the defined deadline) and portfolio and risk indicators (for 2019: 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

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

The Supervisory Board has 5 members. As of 31 December 2019, the Supervisory Board had only 3 members performing their duties. 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 2019 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 four areas: ČEB Strategy (for 2019: review of the manner of funding ČEB's activities and ČEB's medium-term plan), finance and business plan (for 2019: active cooperation on preparing and negotiating the FBP for 2020), remuneration system (for 2019: active participation in approving the K.O. criteria, bank-wide KPIs as well as individual KPIs of Risk takers of group I and II in line with the Supervisory Board's schedule of KPI approval) and control system (for 2019: 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 2019

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	20 133	2 620	–
In kind	118	–	–
Total	20 133	2 620	–

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.y.

Diversity Policy

ČEB does not formally apply a diversity policy to the Board of Directors and the Supervisory Board as the staffing of these bodies is fully under the control of the General Meeting. The second reason is the fact that ČEB is a bank having the state as the direct majority shareholder (84%), its shareholder rights are exercised by the Ministry of Finance and the HR policy is entirely under the control of the state represented by the above ministry, which selects candidates in line with the state's idea of ČEB's activities, involving the support of Czech export and Czech exporters as principal business activities in accordance with Act No. 58/1995 Coll.

There is no discrimination of candidates in the recruitment process. When selecting candidates for members of the Board of Directors, the shareholder and the selection committee composed of representatives of the Supervisory

Board, members of the Board of Directors and the head of the Human Resources department primarily assess the qualifications of potential members, both in terms of work experience and in terms of education. Candidates must additionally adhere to general guidelines for assessing the suitability of members of a management body and persons in key positions determined by the EBA, such as evaluation of experience, reputation or prudential requirements

3.5. Information on 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/kdo-jsme/dalsi-informacni-povinnost/prijate-kodexy/

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/kdo-jsme/dalsi-informacni-povinnost/prijate-kodexy/

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.

Responsibility of the Board of Directors and Supervisory Board of ČEB

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 counterproposals 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 counterproposals 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 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 counterproposals 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:

Churchill I building
Italská 2581/67
Vinohrady
120 00 Prague 2

The contract was signed for the period from 2017 to 2020. In 2019, Deloitte Audit, s.r.o. charged fees for services provided under the Audit Services Contract in the following scope:

Table 16

	2019	2018
Statutory audit of the annual financial statements	1,560	1,500
Other assurance services	120	120
Other non-audit services	0	0
Total	1,680	1,620

Source: ČEB

In 2019, the Bank incurred additional costs arising from the statutory audit of CZK 60 thousand in relation to significant accounting policy changes. The bank incurred costs of training provided by Deloitte Advisory s.r.o. of CZK 1 thousand.

3.8. Court and Arbitration Proceedings in which ČEB is Involved – as of 31 December 2019

As a defendant:

1. **Plaintiff: Parties involved in the insolvency proceedings with Slovakia Steel Mills, a.s., in liquidation**

- Individual incidental disputes regarding the denial of receivables/collateral of ČEB, with the maximum impact in the aggregate amount of EUR 9.3 million;
- Certain proceedings are ongoing, a reserve of 50% was recognised.

As a plaintiff:

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

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

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

- Impact on ČEB's financial situation of USD 5,337,994.87 with interest and fees; and
- Second-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 the account of EGAP (due to the relation between ČEB and EGAP arising from the insurance agreement).

3.9. Contracts of Significance

During 2019, 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 responsible persons

The responsible persons of Česká exportní banka, a.s. (the issuer) signed below declare that to the best of their knowledge, the annual report provides true and fair view of the issuer's financial position, business activity and profit or loss for the prior reporting period and on the anticipated development of its financial position, business activity and profit or loss.

In Prague on 26 March 2020

Jaroslav Výborný
Chairman of the Board of Directors
and CEO

Martin Draslar
Vice-Chairman of the Board of Directors
Deputy CEO

Financial Part

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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 2019

CONTENT OF THE FINANCIAL STATEMENTS

INCOME STATEMENT

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2019	2018
Interest income		1 304	2 091
Interest expense		(751)	(1 122)
Net interest income	6	**553**	**969**
Net fee and commission income	7	**4**	**8**
Net profit (loss) from financial operations, including state subsidy	8	45	(74)
Other operating earnings		6	8
Other operating expenses	9	(3)	(47)
Profit (loss) from operating activities		**605**	**864**
Other administrative expenses	9	(281)	(308)
Amortisation and depreciation	9	(73)	(47)
Profit or loss from modification		(1)	–
Impairment losses on financial assets not reported in real value to profit / loss or their (-) reversal	10	(96)	(367)
Creation of reserves or reversal	10	(106)	81
Profit before income tax		**48**	**223**
Income tax expense	11	18	129
Net proft (loss) for the year		**66**	**352**

STATEMENT OF COMPREHENSIVE INCOME

Under International Financial Reporting Standards as adopted by the European Union

(CZK'm)	Note	2019	2018
Profit or (loss) of current year after tax		66	352
Impact of reclassification of securities under IFRS 9		n/a	4
Total change in OCI from property revaluation	24	2	(32)
OCI from non – current assets and terminated groups for sale		2	(28)
OCI from cash flow hedges (effective part)	24	35	158
Other comprehensive income (OCI)		37	130
Total comprehensive income		103	482

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	2019	2018
ASSETS			
Cash and cash with the central bank and other deposits repayable on demand	3b, 12	1 161	60
Debt securities at fair value recognized in the OCI	3b, 15	1 821	2 033
Financial assets at amortised cost	3b, 13, 15	39 587	53 726
Debt securities valued at amortized cost	3b, 15	1 596	1 636
Loans and receivables at amortized cost	3b, 13	37 991	52 090
Hedging derivatives	14	–	3
Equipment	16	124	28
Intangible assets	17	33	54
Other assets	18	965	1 367
Current income tax assets		154	154
Deferred income tax assets	22	31	21
Total assets		**43 876**	**57 446**
LIABILITIES			
Derivatives for trading	14	110	120
Financial liabilities at amortized cost	19	36 079	46 010
Hedging derivatives	14	24	111
Other liabilities	20	294	4 021
Provisions	3b, 21	198	116
Total liabilities		**36 705**	**50 378**
Share capital	23	5 000	5 000
Revaluation reserve	24	29	(8)
Statutory reserve	25	791	773
Other special fund	25	1 285	1 078
Accumulated loss brought forward (implementation of IFRS 9)		–	(127)
Profit or loss for the year		66	352
Total equity		**7 171**	**7 068**
Total liabilities and equity		**43 876**	**57 446**

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 2018		**5,000**	**257**	**(127)**	**760**	**834**	**(137)**	**6,587**
Impact of reclassification of securities under IFRS 9		–	–	–	–	–	4	4
Total change in OCI from property revaluation	24	–	–	–	–	–	(32)	(32)
OCI from non – current assets and terminated groups for sale	24	–	–	–	–	–	(28)	(28)
Change in cash flow hedges, net of tax	24	–	–	–	–	–	158	158
Net profit / (loss) for the year		–	352	–	–	–	–	352
Total recognised profit / (loss)		–	352	–	–	–	130	482
Influence of cross-rounding		–	–	–	–	–	(1)	(1)
Increase of share capital	24	–	–	–	–	–	–	–
Transfer to other special fund	25	–	(244)	–	–	244	–	–
Transfer to statutory reserve	25	–	(13)	–	13	–	–	–
At 31 December 2018		**5,000**	**352**	**(127)**	**773**	**1,078**	**(8)**	**7,068**
At 1 January 2019		**5,000**	**352**	**(127)**	**773**	**1,078**	**(8)**	**7,068**
OCI from non – current assets and terminated groups for sale	24	–	–	–	–	–	2	2
Change in cash flow hedges, net of tax	24	–	–	–	–	–	35	35
Net profit / (loss) for the year		–	66	–	–	–	–	66
Total comprehensive income		–	66	–	–	–	37	103
Transfer to other special fund	25	–	(207)	–	–	207	–	–
Transfer to statutory reserve	25	–	(18)	–	18	–	–	–
Methodical changes – implementation of IFRS 9		–	(127)	127	–	–	–	–
At 31 December 2019		**5,000**	**66**	**–**	**791**	**1 285**	**29**	**7,171**

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	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		8,264	954
Interest paid		(937)	(1,122)
Net fee and commission received		40	149
Net trading and other income		(87)	52
Recoveries on loans previously written off		3,201	1,487
Cash payments to employees and suppliers		(357)	(406)
Income tax paid		(27)	909
Other taxes paid		–	(24)
Net cash used in operating activities before changes in operating assets and liabilities		**10 097**	**1,999**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net decrease (increase) in loans to banks		(2,988)	1,588
Net decrease (increase) in loans to customers		(3,423)	7,370
Net decrease (increase) of other assets		31	460
Net decrease (increase) in other liabilities		95	3,694
Net increase (decrease) in due to banks		(3,975)	3,764
Net increase (decrease) in due to customers		1,026	(106)
Net cash used in operating activities		**863**	**18,769**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(58)	(70)
Proceeds from sale of fixed assets		1	6
Purchase of securities		(25)	(670)
Proceeds from matured securities		248	181
Proceeds from sale of securities		–	178
Net cash used in investing activities		**166**	**(375)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of bonds		9,470	647
Redemption of issued bonds		(16,247)	(13,739)
Lease payments		(18)	–
Return (receipt) of state subsidy		73	(31)
Net cash from financing activities		**(6,722)**	**(13,123)**
Effect of exchange rate changes on cash and cash equivalents		**(2)**	**(1)**
Net increase in cash and cash equivalents		**(5,695)**	**5 270**
Cash and cash equivalents at beginning of year	**12**	**11,563**	**6 293**
Cash and cash equivalents at end of year	**12**	**5,868**	**11 563**

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.

In 2019, the Bank discontinued the activity of its representative office in Moscow (the Russian Federation) and transferred the business development agenda to the Czech Republic with the aim of cost optimisation. The Bank is authorised to provide banking services, which predominantly comprise accepting deposits from the public and granting loans and guarantees in Czech crowns 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 the European Union law and international rules – mainly through the provision of credit facilities and guarantees. The General Meeting of the Bank makes decisions about profit allocation and in accordance with the Articles of Association the profit is primarily used to contribute to the statutory reserve, export risk reserve or to other funds established by the Bank.

Pursuant to Act No. 58/1995 Coll., the provision of officially supported financing by the Bank is conditioned by 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 arising from the repayment of funds obtained by the Bank and for obligations arising from other transactions by the Bank 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 credit rating of "AA-" with stable outlook and Moody's Investor Service increased the rating to "Aa3" with stable outlook. The Bank's issued bonds are listed on the Luxembourg Stock Exchange (Société de le Bourse de Luxembourg).

2 / ACCOUNTING POLICIES

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

(a) Basis of presentation

The Bank's financial statements have been prepared as stand-alone financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The financial statements have been prepared under the historical cost convention 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 16 Leases, effective from 1 January 2019

Since 1 January 2019, the Bank has applied the requirements of IFRS 16 Leases, using the modified simplified approach to the measurement of lease liabilities and right-of-use assets. As of 1 January 2019, the identified lease liability was measured at the present value of quarterly prepayments made over the estimated lease term (5 years) discounted at the borrowing rate of 1.88%. The lease liability and the right-of-use asset was valued at CZK 86 million. As of 31 December 2019, the right-of-use asset was modified, with effect on the lease liability, by extending the estimated lease term by one year, whereby the borrowing rate was updated to 2.12%.

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

- IFRIC 23 – Uncertainty over Income Tax Treatments, effective date: 1 January 2019;
- Amendment to IFRS 9 – Prepayment Features with Negative Compensation, effective date: 1 January 2019;
- Annual improvements to IFRS – 2015-2017 cycle, effective date: 1 January 2019;
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement, issued in February 2018, effective date: 1 January 2019; and
- Amendment to IAS 28 Long-term Interests in Associates and Joint Ventures, effective date: 1 January 2019.

These standards have no significant impact on the financial statements of the Bank as of 31 December 2019.

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

The following standards, amendments and interpretations were issued by the IASB and adopted by the European Union but not yet effective:

- Amendments to IAS 1 and IAS 8 – Definition of Material, issued in October 2018, effective date: 1 January 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform for use in the European Union, effective date: 1 January 2020; and
- Amendments to References to the Conceptual Framework in IFRS Standards, effective date: 1 January 2020.

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 were issued at the date of approval of these financial statements::

- IFRS 17 – Insurance Contracts, effective date: 1 January 2019;
- Amendments to IFRS 10 a IAS 28 – Sales or Contributions of Assets between an Investor and its Associate or Joint Venture; the effective date has not yet been specified;
- IFRS 14 – Regulatory Deferral Accounts, issued in January 2014, effective date: 1 January 2016;
- Amendments to IFRS 3 – Definition of a Business, issued in October 2018, effective date: 1 January 2020; and
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current, effective date: 1 January 2022.

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 2020, including comparative information as of 31 December 2019.

(b) Segment reporting

Operating segments are reported in accordance with the internal reports regularly prepared and presented to the Bank's Board of Directors which represents a group of managers authorised to make decisions on funds to be allocated to individual segments and to 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 ties to the state budget, operating activities and other relating activities in accordance with the banking licence; and
- Separate set (circle) 002 – set of officially supported financing eligible for subsidy.

(c) Foreign currency translation

Functional and presentation 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 2019	25.410	22.621
31 December 2018	25.725	22.466

(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 the OECD countries with investment ratings granted by reliable 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 measured at the current 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 principles. This usually relates to derivative instruments whose primary goal relates to currency risk hedging. 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 principles 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 also comply with hedge accounting rules: the hedging terms are documented at the initial phase of the hedging relationship and the hedging is effective. The hedge relationship is considered effective if changes in the fair value of the hedging and hedged instruments fluctuate between 80% and 125%. In hedging changes in the interest rate risk, the hedged item involves interest on the portion of the instrument which bears interest and is valued at amortised cost corresponding to the nominal value of the hedging derivative instrument. The hedged item usually includes portions of provided loans or contributions, or received loans or issued bonds. Cash flow hedging is also used for the hedging of future highly-probable cash flows from these financial instruments. 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 of the hedge, which usually arises due to minor differences in the timing of cash flows for the hedged and hedging instruments in cash flow hedging, is immediately recognised 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 under '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 gross amortised cost of a financial asset or financial liability and allocating the interest income or interest expense until maturity of the relevant asset or liability. The effective interest rate is the rate that discounts estimated future cash flows over the expected lifecycle of the financial instrument, or a shorter period (if relevant), to the gross amortised cost 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 without reflecting credit losses. The effective interest rate is adjusted for estimated credit losses only if a credit-impaired financial asset is acquired or originates.

Calculation of the effective interest rate includes all fees and payments made between or received by 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 credit-impaired financial assets, interest income is recognised at amortised cost using the effective interest rate adjusted for credit risk, i.e. at gross amortised cost decreased by allowances..

(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 outstanding principal. The Bank's supplementary strategy is the purchase and holding of an asset with the purpose of obtaining contractual cash flows from the principal and interest as well as selling the asset.

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 terms and 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 by the sale of the asset; and
b) Contractual terms and 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**). Only derivative instruments are mandatorily measured at FVTPL by the Bank.

The Bank does not hold any equity interests in assets.

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

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 is changed.

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 upon 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. The impairment loss is presented in the income statement.

Bonds at fair value through other comprehensive income (FVOCI) are remeasured at 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. Impairment is recognised in equity through profit or loss. 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 at 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 for the measurement of the fair values of financial assets or liabilities.

As of the balance sheet date, management of the Bank assessed the used valuation techniques 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 sufficiently material to result in derecognition. Material modification is indicated by the following events:

- Change in the loan currency;
- Change in the debtor; and
- 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 often 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 upon 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').

Derecognition of financial assets

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 in respect of financial assets at amortised cost or at fair value through other comprehensive income, issued financial guarantees, provided loan commitments and receivables arising from contractual assets.

As of the date of initial recognition the Bank assesses whether the credit risk has increased, i.e. the risk that the Bank will incur a loss caused by a failure of the counterparty to the financial asset to meet its commitments. If the credit risk has not increased (level 1), the Bank calculates allowances and provisions in the amount of twelve-month expected credit losses (ECL) for each reporting date. Twelve-month ECL are a part of lifetime credit losses that correspond to expected credit losses arising from a failure of the financial instrument that may occur within 12 months from the date of recognition.

If a material increase in credit risk occurs (level 2) from the initial recognition, the Bank recognises an allowance or provision in the amount of lifetime expected credit losses. Lifetime expected credit losses involve estimated credit losses arising from any failure to meet commitments during the estimated lifetime of financial assets.

Financial assets are impaired (level 3) if one or more events occurs having an adverse impact on the expected future cash flows related to the financial assets. For purchased or originated credit-impaired (POCI) assets, allowances are reported only as the accumulated change in expected credit losses for the period since the initial 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 money and is based on adequate and demonstrable information that is available without incurring disproportionate costs. Credit losses are defined as a difference between all contractual cash flows payable to an entity under the relevant contract and all cash flows that are expected to be collected by the entity (i.e. all cash deficits), discounted by the original effective interest rate (or by the effective interest rate adjusted for credit risk in respect of purchased or originated creditimpaired financial assets).

The policies and assumptions used for the quantification of expected credit loss are described in Note 3b).

Write-off

Write-off is made upon realisation of collateral or if the Bank no longer has adequate expectations that the value of the financial asset as a whole or its 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 customers. 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 prices is treated as interest and accrued over the term 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 income from trading. 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 as appropriate at each balance sheet date.

If the asset's carrying amount is greater than its estimated recoverable amount, an allowance is created for the asset. The estimated recoverable amount is the higher of the asset's fair value including the costs of sale and the value in use.

(k) Leases

The Bank is involved in lease arrangements only as a lessee. The Bank does not apply the requirements of the standard concerning the right-of-use asset and lease liability for short-term and low-value leases. In such a case, lease payments are recognised over the lease term in the income statement. The identified fixed or material right-of-use asset is measured at cost in the value of the initial recognition of the lease liability, payments made until the inception of the lease, direct costs and estimated costs of cancellation of the lease.

The right-of-use asset is expensed over the estimated lease term. The lease liability is measured at the inception of the lease at the present value of the future payments, using the interest rate implicit in the lease, or the incremental borrowing rate of the lessee.

(l) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents are defined as assets with less than three months' maturity and include current accounts and deposits.

(m) Employee benefits

The Bank regulates the provision of employee benefits by its internal policies (e.g. meal contributions, additional pension insurance contributions, sick days, contribution to the Cafeteria system benefits, housing loan, etc.).

The Bank provides its employees with a contribution to additional pension insurance 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, i.e. retirement bonuses. This provision is created by the sum of liabilities under these benefits at the balance sheet date. The plan of other long-term benefits does not have any proceeds from assets. The present value of the provision is calculated on the basis of the incremental approach which takes into account estimated employee fluctuation.

(n) Taxation and deferred income tax

Deferred income tax is recognised using the full balance sheet liability method. It is determined based on temporary differences between the tax and net book value of assets and liabilities. Deferred income tax is determined using the 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, pursuant to applicable tax regulations 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 at 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 customers, 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 effective. 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 recorded in the Register of Companies. Other 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 the operation of supported financing.

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 resulting from 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 loan commitments.

(s) Guarantees and loan commitments

The Bank also acts as an issuer of guarantees. Bank guarantee contracts are contractual relationships stipulating that the issuer will provide a payment to the beneficiary, subject to events disclosed 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 initial recognition. Allowances are recognised against receivables from outstanding fees.

The Bank enters into contingent financial relationships also by granting loan commitments. Loan commitments are included in the accounting records when all conditions precedent set in the loan agreement have been met. Pursuant to the loan agreement, the Bank is bound to provide a loan, or draw the loanfor 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 loan agreements are recorded solely in the information system of the Bank. Loan 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 loan commitment is probable, these fees are accrued using the effective interest rate and recognised in income over the term of the liability. Subsequently, loan commitments are measured at the higher of expected credit losses, or the remaining unaccrued amounts reported upon first recognition. Allowances are recognised against receivables from outstanding fees.

(t) Collateral and guarantees received

The Bank also receives guarantees issued by other banks and other collateral from other customers as a means of security. An important component of contingent assets is the insurance of export credit risks arranged by or in favour of the Bank. The collateral is taken into account in assessing the risks of loans.

3 / RISK MANAGEMENT

(a) Strategy for using financial instruments

The Bank funds export loans through the use of debt securities issues and long-term borrowings; short-term borrowings from the interbank market and customer 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 means of funding export loans. The Bank seeks lending opportunities to commercial borrowers with acceptable credibility. Such exposures involve not only loans and advances, but the Bank also enters into guarantees and other commitments.

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

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

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

In 2019 and in 2018, 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 they fall due. The exposure results from individual products of the Bank provided under supported export financing and from the Bank's operations on money and capital markets.

The Bank has established a system of approval authorities, depending on the amount of the total limit for the customer. In the organisational structure, credit risk management and control are part of the Risk Management section for which the relevant Board member is responsible.

Credit risk measurement

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

Rating value	Level of risk	Description	Conversion to the rating of Standard&Poor's
1	Very low	Entities with this rating have a very high credit quality. The financial situation is very stable and other economic are highly favourable. The ability to settle liabilities in due time and manner is very high.	from AAA to -AA-
2	Low	Entities with this rating have a high credit quality. The financial situation is stable and other economic factors are favourable. The ability to settle liabilities in due time and manner is high.	from A+to A-
3	Lower	Entities with this rating have a very good credit quality. The financial situation is better-than-average and other economic factors are highly satisfactory. The ability to settle liabilities in due time and manner is very good.	from BBB+ to BBB-
4	Medium	Entities with this rating have a good credit quality. The financial situation is acceptable and other economic factors are satisfactory. The ability to settle liabilities in due time and manner is good.	from BB+ to BB-
5	Higher	Entities with this rating have a lower credit quality. The financial situation is deteriorated and other economic factors are below average. The ability to settle liabilities in due time and manner is lower.	from B+ to B-
6	High	Entities with this rating have a lower credit quality. The financial situation is deteriorated and other economic factors are below average. The ability to settle liabilities in due time and manner is lower.	from CCC+ to CCC-
7	Very high	Entities with this rating have a low credit quality. The financial situation is unstable and other economic factors are highly below average. The ability to settle liabilities in due time and manner is uncertain.	from CC+ to C-
D	Default	Entities with this rating have a very low credit quality. The financial situation is highly unstable and other economic factors are unfavourable. The ability to settle liabilities in due time and manner is unlikely or impossible.	default

The Bank's financial assets are classified into 3 risk stages (Stage 1 – 3) and the special POCI category.

- Stage 1 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 2 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 3 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.

Significant increase in credit risk

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

The assessment of 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 unreasonable expenses or effort. These include historical information, information on future prospects and credit risk assessment over the

estimated useful 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 since initial recognition is based on a significant increase in the probability of default since initial recognition rather than on the events that have occurred. In assessing the credit risk, the Bank takes into account the customer's current projections and available information on the anticipated market developments and the economy of the whole country. For receivables in the portfolio of assets on the money and capital markets, the Bank anticipates that the credit risk is low due to the high rating of counterparties. This is ensured by an extremely prudent policy applied at the decision-making level when approving credit limits, which are re-assessed every 12 months. The portfolio of receivables from loans, loan commitments, issued guarantees and trade receivables, which arise solely from the Bank's customers, the Bank regularly monitors and assessed the following red flags:

- The debtor has not complied with its non-financial contractual obligations towards the Bank for more than six months (e.g. establishing a subsequent security, financial and non-financial covenants);
- The beneficiary of the issued guarantee sent the Bank a request for extending a guarantee (extend or pay);
- A modification of the financial asset (exposure) has been performed; the impact of the change (decrease) in the present value of future cash flows after and before modification calculated using the original effective interest rate is less than 5%;
- Insolvency or similar bankruptcy proceedings in line with foreign legal regulations have been initiated against the debtor because of an insignificant receivable[1], which may lead to the declaration of bankruptcy and a petition for the commencement of such proceedings have not been dismissed or rejected or the proceedings have not been suspended within 30 days from commencement;
- Legal disputes (in which the Bank acts as a plaintiff or defendant) concerning material amounts (higher than 10% of the net book value of the debtor's assets);
- Anticipated changes that may considerably modify the debtor's ability to pay its liabilities, such as the effect of significant changes in macroeconomic variables (e.g. GDP development, inflation, significant change in the exchange rate, adverse development of the prices of key commodities, decreasing the country's rating by 2 notches or more) or other significant negative information related to the business case or the debtor (e.g. adverse changes in market, financial, economic and technology conditions);
- An off-balance sheet item meeting the following criteria:
  - There is a performance obligation (legal or constructive) as a result of past events, it is possible to make a reasonably reliable estimate of the performance probability;
  - It is probable that the performance will occur and require an outflow of resources embodying economic benefits; "probable" refers to probability of more than 50%.

A significant increase in credit risk (SICR) is acknowledged no later than when:

- A receivable is past due by more than 30 days;
- The debtor's internal rating when compared to the initial recognition has deteriorated as follows:

Rating upon initial recognition	Deterioration
1–3	by 3 notches
4–5	by 2 notches
6	by 1 notches

- Payments are made by the guarantor but it was unknown when approving an allowance that payments would be sent by the guarantor rather than the debtor;
- The principal in a guarantee issued by the Bank does not meet the conditions of the guarantee, with the Bank anticipating the beneficiary's request to extend the guarantee ("extend or pay"); and
- A statement of another creditor or the investigative, prosecuting and adjudicating bodies indicates that criminal proceedings have commenced against the debtor of members of the statutory body because of a property crime committed in relation to their business activity.

[1] An insignificant receivable means a receivable whose full settlement will not result in the debtor's bankruptcyor serious financial issues (to be assessed by the risk management division)

Debtor's default

The event of default has been defined in the Bank based on historical experience for various types of financial instruments. Debtor's default refers to a situation when at least one of the following conditions has been met:

- A receivable or its major portion (exceeding the amount of CZK 50 thousand) is past its due date for more than 90 days;
- With respect to the debtor, an insolvency petition was dismissed, or the insolvency or similar proceedings were discontinued due to insufficient debtor's property;
- The debtor intends to enter into, or has entered into, liquidation;
- Bankruptcy of the debtor has been identified or declared, or the bankruptcy or similar proceedings have commenced under foreign legislation, resulting in a loss or restriction of the debtor's disposition rights;
- The court has issued a decision on the invalidity or non-existence of the debtor (legal person), or the debtor (an individual) has passed away;
- Enforcement of a judgment concerning the sale of the debtor's assets or distraint, including judicial lien, has been ordered based on a final and conclusive judgment of the court or an administrative authority;
- The Bank had to make payments for the debtor under provided guarantees; and
  - The debtor has not paid such receivable within 90 days from the deadline specified by the accompanying loan agreement concluded for performance under a guarantee (or within 90 days from the deadline for performance defined by the Bank if the accompanying agreement is not concluded, or the deadline is not defined therein) and, simultaneously, the Bank has not agreed on a payment schedule with the debtor in order to settle the Bank's receivable arising in relation to payments made for the debtor under provided guarantees; or
  - probability that the debtor cannot settle such receivable without the use of security is more than 50%;
- It is obvious that the receivable will be settled at least partly from the security used.

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.

For Stage 1 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 from the reporting date.

In segments of receivables from loans, 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 of the exposure net of all regulatory accepted collateral. The resulting recognition of allowances and provisions is allocated to individual financial assets.

In the segment of receivables of the money and capital markets bearing low credit risk, the Bank uses an individual approach to quantify ECL. The ECL quantification is based on 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 developments of the country.

For **Stage 2, Stage 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 an individual approach and the expected cash flow method for its determination. Estimated cash flows are determined by evaluators using the estimated cash flow scenario.

- It is always required to use at least two scenarios with a non-zero weight, with the sum of individual weights being 100%;
- The only exception is when the receivable is insured by a loan insurance company and the insurance company issued a statement as regards insurance payments – in such a case, only one scenario will be used, i.e. cash flows will be based on the payments of premium and reductions (if any) – based on a declaration of the loan insurance company;
- If the receivable is insured by a loan insurance company, at least one scenario reflecting the possibility of insurance payments by a loan insurance company must be used;

- If the receivable is insured by a loan insurance company and it is estimated (probability of the scenario is >10%) that cash flows will be composed of payments from the insurance company but the insurance company has not yet issued a statement, one of the scenarios has to reflect the possibility of reducing insurance payments by the insurance company.

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

Exposures by degree of credit risk

(CZK'm)							2019
	Book value (netto)	Carrying amount (brutto)			Acumulated depreciation		
		Stage 1	Stage 2	Stage 3	Stage 1	Stageň 2	Stage 3
Debt securities at fair value through OCI	**1,821**	**1,821**	**–**	**–**	**–**	**–**	**–**
Government Institutions	**1,640**	1,640	–	–	–	–	–
Credit institutions	**181**	181	–	–	–	–	–
Financial assets at amortised cost	**39,587**	**21,584**	**10,672**	**13,179**	**(28)**	**(152)**	**(5,668)**
Debt securities valued at amortised cost	**1,596**	1,596	–	–	–	–	–
Government Institutions	**1,546**	1,546	–	–	–	–	–
Credit institutions	**50**	50	–	–	–	–	–
Loans and receivables at amortised cost	**37,991**	**19,988**	**10,672**	**13,179**	**(28)**	**(152)**	**(5,668)**
Central banks	**3,502**	3,502	–	–	–	–	–
Government Institutions	**3,242**	3,246	–	–	(4)	–	–
Credit institutions	**2,327**	2,294	–	37	(3)	–	(1)
Other financial institutions	**4**	4	–	1	–	–	(1)
Non-financial corporations	**28,916**	10,942	10,672	13,141	(21)	(152)	(5,666)

(CZK'm)							2018
	Book value (netto)	Carrying amount (brutto)			Acumulated depreciation		
		Stage 1	Stage 2	Stage 3	Stage 1	Stageň 2	Stage 3
Debt securities at fair value through OCI	**2,033**	**2,033**	**–**	**–**	**–**	**–**	**–**
Government Institutions	**1,847**	1,847	–	–	–	–	–
Credit institutions	**186**	186	–	–	–	–	–
Financial assets at amortised cost	**53,726**	**26,638**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**
Debt securities valued at amortised cost	**1,636**	1,636	–	–	–	–	–
Government Institutions	**1,586**	1,586	–	–	–	–	–
Credit institutions	**50**	50	–	–	–	–	–
Loans and receivables at amortised 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 institutions	**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)						2019
	Carrying amount (brutto)			Acumulated depreciation		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Granted loan commitments total	**3,373**	**–**	**–**	**(4)**	**–**	**–**
Government Institutions	1,673	–	–	(1)	–	–
Non-financial corporations	1,700	–	–	(3)	–	**–**
Provided financial guarantees total	**1,265**	**57**	**68**	**(15)**	**(2)**	**(11)**
Non-financial corporations	1,265	57	68	(15)	(2)	(11)

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

Development of exposures by degree of credit risk in gross amount

(CZK'm)												2019
	Carrying amount of exposure (brutto)											
				Movements during the year								
	Balance at 31. 12. 2018				Transfer to (from)					Balance at 31. 12. 2019		
	Stage 1	Stage 2	Stage 3	Newly bought/ granted	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	**2,033**	**–**	**–**	**23**	**–**	**–**	**–**	**(230)**	**(5)**	**1,821**	**–**	**–**
Government Institutions	1,847	–	–	23	–	–	–	(227)	(3)	1,640	–	–
Credit institutions	186	–	–	–	–	–	–	(3)	(2)	181	–	–
Financial assets at amortised cost	**26,637**	**12,690**	**21,569**	**8,658**	**(13)**	**(4)**	**17**	**(23,615)**	**(504)**	**21,584**	**10,672**	**13,179**
Debt securities valued at amortised cost	1,635	–	–	–	–	–	–	(34)	(5)	1,596	–	–
Government Institutions	1,585	–	–	–	–	–	–	(34)	(5)	1,546	–	–
Credit institutions	50	–	–	–	–	–	–	–	–	50	–	–
Loans and receivables at amortised cost	**25,002**	**12,690**	**21,569**	**8,658**	**(13)**	**(4)**	**17**	**(23,581)**	**(499)**	**19,988**	**10,672**	**13,179**
Central banks	10,984	–	–	3,505	–	–	–	(10,984)	(3)	3,502	–	-
Government Institutions	3,970	–	–	1,250	–	–	–	(1,945)	(29)	3,246	–	-
Credit institutions	682	249	116	2,302	–	(236)	236	(989)	(29)	2,294	–	37
Other financial institutions	6	–	3	4	–	–	–	(8)	–	4	–	1
Non-financial corporations	9,360	12,441	21,450	1,597	(13)	232	(219)	(9,655)	(438)	10,942	10,672	13,141
Granted loan commitments total	**4,921**	**55**	**–**	**297**	**–**	**(54)**	**54**	**(1,829)**	**(71)**	**3,373**	**–**	**–**
Government Institutions	2 ,087	–	–	–	–	–	–	(376)	(38)	1,673	–	–
Credit institutions	16	55	–	14	–	–	–	(84)	(1)	–	–	–
Non-financial corporations	2,818	–	–	283	–	(54)	54	(1,369)	(32)	1,700	–	–
Provided financial guarantees total	**957**	**24**	**153**	**475**	–	**–**	**–**	**(204)**	**(15)**	**1,265**	**57**	**68**
Non-financial corporations	957	24	153	475	–	–	–	(204)	(15)	1,265	57	68

(CZK'm)												2018
	Carrying amount of exposure (brutto)											
				Movements during the year								
	Balance at 1. 1. 2018				Transfer to (from)					Balance at 31. 12. 2018		
	Stage 1	Stage 2	Stage 3	Newly bought/ granted	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**	**–**	**–**
Government Institutions	1,817	–	–	125	–	–	–	(98)	3	1,847	–	–
Credit institutions	319	–	–	–	–	–	–	(136)	3	186	–	–
Financial assets at amortised 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 amortised cost	1,268	–	–	546	–	–	–	(182)	3	1,635	–	–
Government Institutions	1,218	–	–	546	–	–	–	(182)	3	1,585	–	–
Credit institutions	50	–	–	–	–	–	–	–	–	50	–	–
Loans and receivables at amortised 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	–	–
Government 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
Non-financial 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**	–
Government Institutions	–	–	–	2,102	–	–	–	–	(15)	2,087	–	–
Credit institutions	22	–	–	70	(54)	54	–	(22)	1	16	55	–
Non-financial 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)	–	–	–	–
Non-financial corporations	1,071	–	637	252	(24)	24	–	(808)	(18)	957	24	153

Development of allowances and provisions by degree of credit risk

(CZK'm)												2019
	Accumulated depreciation											
				Movements during the year								
	Balance at 31. 12. 2018				Transfer to (from)					Balance at 31. 12. 2019		
	Stage 1	Stage 2	Stage 3	Newly bought/ granted	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 amortised cost	(12)	(133)	(7,026)	(448)	(39)	47	(8)	1,693	78	(28)	(152)	(5,668)
Debt securities valued at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and receivables at amortised cost	**(12)**	**(133)**	**(7,026)**	**(448)**	**(39)**	**47**	**(8)**	**1,693**	**78**	**(28)**	**(152)**	**(5,668)**
Central banks	(1)	–	–	(5)	–	–	–	6	–	–	–	–
Government Institutions	(6)	–	–	(1)	–	–	–	3	–	(4)	–	–
Credit institutions	–	–	(116)	(135)	–	(1)	1	247	–	(3)	–	(1)
Other financial institutions	–	–	(3)	–	–	–	–	2	–	–	–	(1)
Non-financial corporations	(5)	(133)	(6,907)	(307)	(39)	48	(9)	1,435	78	(21)	(152)	(5,666)
Granted loan commitments total	**(4)**	**–**	**–**	**(3)**	**–**	**–**	**–**	**3**	**–**	**(4)**	**–**	**–**
Government Institutions	(1)	–	–	–	–	–	–	–	–	(1)	–	–
Non-financial corporations	(3)	–	–	(3)	–	–	–	3	–	(3)	–	–
Provided financial guarantees total	**(7)**	**–**	**(34)**	**(15)**	**–**	**–**	**–**	**28**	**–**	**(15)**	**(2)**	**(11)**
Non-financial corporations	(7)	–	(34)	(15)	–	–	–	28	–	(15)	(2)	(11)

(CZK'm)												2018
	Accumulated depreciation											
				Movements during the year								
	Balance at 1. 1. 2018				Transfer to (from)					Balance at 31. 12. 2018		
	Stage 1	Stage 2	Stage 3	Newly bought/ granted	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 amortised cost	**(17)**	**(108)**	**(6,621)**	**(723)**	**30**	**(30)**	**–**	**314**	**(16)**	**(12)**	**(133)**	**(7,026)**
Debt securities valued at amortised cost	–	–	–	–	–	–	–	–	–	–	–	–
Loans and receivables at amortised cost	**(17)**	**(108)**	**(6,621)**	**(723)**	**30**	**(30)**	**–**	**314**	**(16)**	**(12)**	**(133)**	**(7,026)**
Central banks	–	–	–	(9)	–	–	–	8	–	(1)	–	–
Government Institutions	–	–	–	(9)	–	–	–	3	–	(6)	–	–
Credit institutions	(2)	–	(115)	(10)	–	–	–	12	(1)	–	–	(116)
Other financial institutions	(10)	–	(3)	(4)	–	–	–	14	–	–	–	(3)
Non-financial corporations	(5)	(108)	(6,503)	(691)	30	(30)	–	277	(15)	(5)	(133)	(6,907)
Granted loan commitments total	**(3)**	**–**	**–**	**(15)**	**–**	**–**	**–**	**12**	**2**	**(4)**	**–**	**–**
Government Institutions	–	–	–	(1)	–	–	–	–	–	(1)	–	–
Credit institutions	–	–	–	(4)	–	–	–	4	–	–	–	–
Non-financial corporations	(3)	–	–	(10)	–	–	–	8	2	(3)	–	–
Provided financial guarantees total	**(5)**	**–**	**(118)**	**(18)**	**–**	**–**	**–**	**101**	**(1)**	**(7)**	**–**	**(34)**
Non-financial corporations	(5)	–	(118)	(18)	–	–	–	101	(1)	(7)	–	(34)

Development of exposures by degree of credit risk in netto amount

(CZK'm)												2019
	Carrying amount of exposure (netto)											
				Movements during the year								
	Balance at 31. 12. 2018				Transfer to (from)					Balance at 31. 12. 2019		
	Stage 1	Stage 2	Stage 3	Newly bought/ granted	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	**2,033**	**–**	**–**	**23**	**–**	**–**	**–**	**(230)**	**(5)**	**1,821**	**–**	**–**
Government Institutions	1,847	–	–	23	–	–	–	(227)	(3)	1,640	–	–
Credit institutions	186	–	–	–	–	–	–	(3)	(2)	181	–	–
Financial assets at amortised cost	**26,625**	**12,557**	**14,543**	**8,210**	**(52)**	**43**	**9**	**(21,922)**	**(426)**	**21,556**	**10,520**	**7,511**
Debt securities valued at amortised cost	1,635	–	–	–	–	–	–	(34)	(5)	1,596	–	–
Government Institutions	1,585	–	–	–	–	–	–	(34)	(5)	1,546	–	–
Credit institutions	50	–	–	–	–	–	–	–	–	50	–	–
Loans and receivables at amortised cost	**24,990**	**12,557**	**14,543**	**8,210**	**(52)**	**43**	**9**	**(21,888)**	**(421)**	**19,960**	**10,520**	**7, 511**
Central banks	10,983	–	–	3,500	–	–	–	(10,978)	(3)	3,502	–	–
Government Institutions	3,964	–	–	1,249	–	–	–	(1,942)	(29)	3,242	–	–
Credit institutions	682	249	–	2,167	–	(237)	237	(742)	(29)	2,291	–	36
Other financial institutions	6	–	–	4	–	–	–	(6)	–	4	–	–
Non-financial corporations	9,355	12,308	14,543	1,290	(52)	280	(228)	(8,220)	(360)	10,921	10,520	7,475

(CZK'm)												2018
	Carrying amount of exposure (netto)											
				Movements during the year								
	Balance at 1. 1. 2018				Transfer to (from)					Balance at 31. 12. 2018		
	Stage 1	Stage 2	Stage 3	Newly bought/ granted	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**	**–**	**–**
Government Institutions	1,817	–	–	125	–	–	–	(98)	3	1 847	–	–
Credit institutions	319	–	–	–	–	–	–	(136)	3	186	–	–
Financial assets at amortised 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 amortised cost	**1,268**	**–**	**–**	**546**	**–**	**–**	**–**	**(182)**	**3**	**1,635**	**–**	**–**
Government Institutions	1,218	–	–	546	–	–	–	(182)	3	1,585	–	–
Credit institutions	50	–	–	–	–	–	–	–	–	50	–	–
Loans and receivables at amortised 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	–	–
Government 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	–	–
Non-financial corporations	14,234	14,052	16,119	1,841	(1,134)	1,134	–	(10,366)	326	9,355	12,308	14,543

Movements in allowances

(CZK'm)	Initial state	Increase in occurrence	Decrease when decredited	Changes in credit risk (netto)	Changes due to modification without derecognition (netto)	Decrease in depreciation	Other adjustments	Final state	Revenue from depreciation	Depreciation to P/L
2019										
Adjustments to debt instruments										
Cash and cash with the central bank and other deposits repayable on demand	–	(3)	1	–	–	–	–	(2)	–	–
Debt securities	–	–	–	–	–	–	–	–	–	–
Loans and receivables at amortised cost	(13)	(39)	24	–	–	–	–	(28)	6	(6)
Stage 1 – for assets without significant increase in credit risk	(13)	(42)	25	–	–	–	–	(30)	6	(6)
Debt securities	–									
Loans and receivables at amortised cost	(133)	–	–	(20)	(1)	–	2	(152)	–	–
Stage 2 – for debt instruments with significant credit risk increase	(133)	–	–	(20)	(1)	–	2	(152)	–	–
Debt securities	–									
Loans and receivables at amortised cost	(7,025)	–	–	(95)	–	1,375	78	(5,668)	6,664	(8,004)
Stage 3 – for Debt Relating Debt Instruments Loans and receivables at amortised cost	(7,025)	–	–	(95)	–	1,375	78	(5,668)	6,664	(8,004)
Total	(7,171)	(42)	25	(115)	(1)	1,375	80	(5,850)	6,670	(8,010)
Reserves for commitments and financial guarantees										
Stage 1	11	18	–	–	–	–	(10)	19	–	–
Stage 2	–	–	(7)	–	–	–	9	2	–	–
Stage 3	34	–	–	(23)	–	–	1	11	–	–
Total	45	18	(7)	(23)	–	–	–	32	–	–

(CZK'm)	Initial state	Increase in occurrence	Decrease when decredited	Changes in credit risk (netto)	Changes due to modification without derecognition (netto)	Decrease in depreciation	Other adjustments	Final state	Revenue from depreciation	Depreciation to P/L
2018										
Adjustments to debt instruments										
Debt securities	–	–	–	–	–	–	–	–	–	–
Loans and receivables at amortised 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)
Debt securities	–	–	–	–	–	–	–	–	–	–
Loans and receivables at amortised cost	(108)	–	–	(22)	–	–	(3)	(133)	–	–
Stage 2 – for debt instruments with significant credit risk increase	(108)	–	–	(22)	–	–	(3)	(133)	–	–
Debt securities	–	–	–	–	–	–	–	–	–	–
Loans and receivables at amortised cost	(6,616)	–	–	(383)	–	41	(68)	(7,025)	1,417	(1,417)
Stage 3 – for Debt Relating Debt Instruments Loans and receivables at amortised 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	–	–

Classification by internal rating

(CZK'm)									2019
	internal rating	Carrying amount	Carrying amount (brutto)			Accumulated depreciation			
			Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Very low credit risk	AA+ až AA-	1,546	1,546	–	–	–	–	–	
Low credit risk	horší než A-	50	50	–	–	–	–	–	
Debt securities valued at amortised cost		**1,596**	**1,596**	**–**	**–**	**–**	**–**	**–**	
Highest credit quality	1	3,534	3,535	–	1	(1)	–	(1)	
High credit quality	2	1,893	1,895	–	–	(2)	–	–	
Very good credit quality	3	1,604	1,604	–	–	-	–	–	
Good credit quality	4	4,853	4,478	405	–	(1)	(29)	–	
Quality requires attention	5	15,496	8,442	7,118	–	(24)	(40)	–	
Vulnerable	6	3,062	34	3,111	–	–	(83)	–	
Unsatisfactory	7	38	–	38	–	–	–	–	
Project Financing	21-24	–	–	–	–	–	–	–	
Default of project	D	7,511	–	–	13,178	–	–	(5,667)	
Loans and receivables at amortised cost		**37,991**	**19,988**	**10,672**	**13,179**	**(28)**	**(152)**	**(5,668)**	
Financial assets at amortised cost		**39,587**	**21,584**	**10,672**	**13,179**	**(28)**	**(152)**	**(5 ,668)**	
Minimal credit risk	AAA	128	128	–	–	–	–	–	
Very low credit risk	AA+ až AA-	1,576	1,576	–	–	–	–	–	
Low credit risk	A+ až A-	116	116	–	–	–	–	–	
Debt instruments at FV reported to OCI		**1,821**	**1,821**	**–**	**–**	**–**	**–**	**–**	

(CZK'm)									2018
	internal rating	Carrying amount	Carrying amount (brutto)			Accumulated depreciation			
			Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Very low credit risk	AA+ až AA-	1,586	1,586	–	–	–	–	–	
Low credit risk	horší než A-	50	50	–	–	–	–	–	
Debt securities valued at amortised cost		**1,636**	**1,636**	**–**	**–**	**–**	**–**	**–**	
Highest credit quality	1	10,989	10,990	–	3	(1)	–	(3)	
High credit quality	2	608	608	–	–	–	–	–	
Very good credit quality	3	843	843	–	–	–	–	–	
Good credit quality	4	5,555	5,555	–	–	–	–	–	
Quality requires attention	5	14,510	4,804	9,290	485	(8)	(48)	(13)	
Vulnerable	6	4,632	2,149	2,531	-	(3)	(45)	–	
Unsatisfactory	7	53	53	–	–	–	–	–	
Project Financing	21-24	–	–	–	–	–	–	–	
Default of project	D	14,900	–	–	21,081	–	(40)	(7,010)	
Non-rated	–	–	–	869	–	–	–	–	
Loans and receivables at amortised cost		**52,090**	**25,002**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**	
Financial assets at amortised cost		**53,726**	**26,638**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**	
Minimal credit risk	AAA	131	131	–	–	–	–	–	
Very low credit risk	AA+ až AA-	1,699	1,699	–	–	–	–	–	
Low credit risk	A+ až A-	203	203	–	–	–	–	–	
Debt instruments at FV reported to OCI		**2,033**	**2,033**	–	–	–	–	–	

Performing and non-performing exposures

A non-performing exposure is an exposure that meets at least one of the criteria below:

a) Is past its due date by more 90 days;

b) The debtor has been assessed by the Bank as an entity that will probably be unable to settle all its liabilities without using a collateral, whereby the existence of an exposure past its due date or the number of days past the due date are not taken into account; and

c) The exposure is at a trial period for which other forbearance is provided or which is more than 30 days past its due date.

Such an exposure is always classified by the Bank in Stage 3 or POCI.

Performing and non-performing exposures before and past due date

(CZK'm)								**2019**
		Book value (Netto)						
	Total	**Executive exposures**		**Non-performing exposures**				
Interval overdue		=0 ≤30 days	>30 days ≤90 days	=0 ≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 ryear ≤5 years	>5 years
Debt securities valued at amortised cost	1,596	1,596	–	–	–	–	–	–
Loans and receivables at amortised cost	37,991	30,480	–	1	–	36	6,525	949
Financial assets at amortised cost	39,587	32,076	–	1	–	36	6,525	949
Debt instruments at FV reported to OCI	1,821	1,821	–	–	–	–	–	–
Performing and non-performing exposures in total	41,408	33,897	–	1	–	36	6,525	949

(CZK'm)								**2018**
		Book value (Netto)						
	Total	**Executive exposures**		**Non-performing exposures**				
Interval overdue		=0 ≤30 days	>30 days ≤90 days	=0 ≤90 days	>90 days ≤180 days	>180 days ≤1 year	>1 ryear ≤5 years	>5 years
Debt securities valued at amortized cost	1,636	1,636	–	–	–	–	–	–
Loans and receivables at amortized cost	52,090	35,296	2 251	471	1	–	12,671	1,400
Financial assets at amortised cost	53,726	36,932	2 251	471	1	–	12,671	1,400
Debt instruments at FV reported to OCI	2,033	2,033	–	–	–	–	–	–
Performing and non-performing exposures in total	55,759	38,965	2 251	471	1	–	12,671	1,400

Performing and non-performing exposures with forbearance

Exposures with forbearance refer to exposures for which the debtor is handling or is likely to handle obstacles in the performance of its financial liabilities and, as a consequence, the Bank has changed conditions. These new conditions are more favourable towards the debtor or are more favourable than those offered to debtors with a similar risk profile at that time. The assessment of exposures with forbearance focuses on whether the exposure has been classified as performing before granting the forbearance or whether it would be classified as non-performing when contracting conditions have changed.

(CZK'm)							**2019**
	Carrying amount	**Carrying amount (brutto)**			**Accumulated depreciation**		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial assets at amortised cost with forbearance	**18,006**	2,365	9,205	7,251	(1)	(88)	(726)

(CZK'm)							**2018**
	Carrying amount	**Carrying amount (brutto)**			**Accumulated depreciation**		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial assets at amortised cost with forbearance	**25,719**	2,882	10,483	13,299	(1)	(63)	(881)

The Bank records interest on receivables with forbearance in the amount of CZK 612 million (2018: CZK 1,061 mil.)

Proportion of exposures with forbearance to total exposure

(CZK'm)			2019			2018
	Loans and receivables at amortised cost	Exposures with forbearance	Share of loans and receivables	Loans and receivables at amortised cost	Exposures with forbearance	Share of loans and receivables
Non-financial corporations	28,916	18,006	62.3%	36,206	25,719	71.0%
Total exposure	**28,916**	**18,006**	**62.3%**	**36,206**	**25,719**	**71.0%**

Modified contractual cash flows

(CZK'm)	2019	2018
Accrued value of receivables in stages 2 and 3 before modification	2,487	–
Net gain / loss on modification	(1)	–
The gross carrying amount of receivables in stages 2 and 3 was transferred to stage 1 during the accounting period	–	–

Credit risk management

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

Maximum credit exposure

(CZK'm)							2019
	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**
Cash and cash with the central bank and other deposits repayable on demand	1,161	–	**1,161**	–	–	–	**1,161**
Debt securities at fair value recognized in the OCI	1,821	–	**1,821**	–	–	–	**1,821**
Financial assets at amortised cost	**39,587**	**4,763**	**44,350**	**29,813**	**3,812**	**33,625**	**10,725**
Receivables from banks	5,829	–	**5,829**	18	–	**18**	**5,811**
Receivables from clients	32,162	4,763	**36,925**	29,795	3,812	**33,607**	**3,318**
Debt securities	1,596	–	**1,596**	–	–	–	**1,596**
Other assets	1,307	–	**1,307**	–	–	–	**1,307**
Total exposure	**43,876**	**4,763**	**92,989**	**59,626**	**7,624**	**67,250**	**25,739**

(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**
Cash and cash with the central bank and other deposits repayable on demand	60	–	**60**	–	–	–	60
Debt securities at fair value recognized in the OCI	2,033	–	**2,033**	–	–	–	2,033
Financial assets at amortised cost	**53,726**	**6,110**	**59,836**	**37,865**	**5,138**	**43,003**	**16,833**
Receivables from banks	11,913	71	**11,984**	162	15	177	11,807
Receivables from clients	40,176	6,039	**46,215**	37,703	5,123	42,826	3,389
Debt securities	1,636	–	**1,636**	–	–	–	1,636
Positive fair value of financial derivatives	3	–	**3**	–	–	–	3
Other assets	1,624	–	**1,624**	–	–	–	1,624
Total exposure	**57,446**	**6,110**	**63,555**	**75,730**	**10,276**	**86,006**	**37,385**

Financial derivative instruments

The credit risk resulting from open derivative positions is managed within the overall trading limits for individual debtors, by both amount and term. The credit risk arising from these instruments usually is not subject to pledge or other guarantees. In other cases, financial collateral is used in the form of received deposit bearing the basic interest rate of the respective currency.

The credit risk from derivative positions is minimised by the Bank by selecting credible counterparties and regularly monitoring their financial situation. The derivatives were arranged with counterparties based in the OECD countries (or with credible domestic counterparties) and having long-term "A" ratings or better from international rating agencies.

Other financial assets

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

Off-balance sheet exposures

Off-balance sheet exposures primarily involve loan commitments and financial guarantees. Loan commitments represent the unused portion of approved credit facilities in the form of loans. With regard to credit risk arising from loan commitments, the Bank is exposed to the risk of potential loss as equal to the aggregate amount of unused loan commitments.

Concentration of credit risk

The Bank has set a system for the management of limits for individual debtors and economically related groups of debtors with regard to the debtor's territory and industry to ensure that engagement limits stipulated by regulation are nor exceeded. The credit risk is decreased by way of hedging instruments, predominantly including the insurance of export risks, cash collateral, securities received as the hedging of repo.

Breakdown by geography

(CZK'm)								2019
	Carrying amount (netto)	%	**Carrying amount (brutto)**			**Accumulated depreciation**		
			Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Czech Republic	**1,546**	96.87	1,546	–	–	–	–	–
Netherlands	**50**	3.13	50	–	–	–	–	–
Debt securities valued at amortized cost	**1,596**	**100.00**	**1,596**	**–**	**–**	**–**	**–**	**–**
Azerbaijan	4,010	10,56	4,015	–	–	(5)	–	–
Czech Republic	**5,209**	13.71	4,135	1,028	184	(1)	(36)	(101)
Russia	**8,076**	21.26	4,403	3,009	5,302	(1)	(89)	(4,548)
Slovak Republic	**10,270**	27.03	3,368	6,596	932	(7)	(27)	(592)
Turkey	**7,559**	19.90	1,273	–	6,723	(11)	–	(426)
Others	**2,867**	7.55	2,794	39	38	(3)	–	(1)
Loans and receivables at amortized cost	**37,991**	**100.00**	**19,988**	**10,672**	**13,179**	**(28)**	**(152)**	**(5,668)**
Financial assets at amortised cost	**39,587**	**–**	**21,584**	**10,672**	**13,179**	**(28)**	**(152)**	**(5,668)**
Czech Republic	**1,524**	83.69	1,524	–	–	–	–	–
Belgium	**129**	7.08	129	–	–	–	–	–
France	**52**	2.86	52	–	–	–	–	–
Slovak Republic	**116**	6.37	116	–	–	–	–	–
Debt instruments at FV reported to OCI	**1,821**	**100.00**	**1,821**	–	–	–	–	–

(CZK'm)								2018
	Carrying amount (netto)	%	**Carrying amount (brutto)**			**Accumulated depreciation**		
			Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Czech Republic	**1,586**	96.94	1,586	–	–	–	–	–
Netherlands	**50**	3.06	50	–	–	–	–	–
Debt securities valued at amortised cost	**1,636**	**100.00**	**1,636**	**–**	**–**	**–**	**–**	**–**
Azerbaijan	**5,238**	10.06	5,247	–	–	(9)	–	–
Czech Republic	**12,236**	23.49	11,021	1,164	233	(2)	(30)	(150)
Russia	**10,185**	19.55	5,317	3,164	7,296	(1)	(84)	(5,507)
Slovak Republic	**10,961**	21.04	1,763	8,114	1,505	(1)	(19)	(401)
Turkey	**11,551**	22.18	–	–	12,063	–	–	(512)
Others	**1,918**	3.68	1,654	248	472	–	–	(456)
Loans and receivables at amortised cost	**52,090**	**100.00**	**25,002**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**
Financial assets at amortised cost	**53,726**	**–**	**26,638**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**
Czech Republic	**1,644**	80.87	1,644	–	–	–	–	–
Belgium	**131**	6.44	131	–	–	–	–	–
France	**55**	2.71	55	–	–	–	–	–
Slovak Republic	**203**	9.99	203	–	–	–	–	–
Debt instruments at FV reported to OCI	**2,033**	**100.00**	**2,033**	–	–	–	–	–

Breakdown by industry

(CZK'm)								2019
	Carrying amount (netto)	%	Carrying amount (brutto)			Accumulated depreciation		
			Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial and insurance activities	**50**	3.13	50	–	–	–	–	–
Public administration and defense	**1 546**	96.87	1,546	–	–	–	–	–
Debt securities valued at amortised cost	**1 596**	**100.00**	**1,596**	**–**	**–**	**–**	**–**	**–**
Processing industry	**5 632**	14.82	2,035	3,111	1,470	–	(83)	(901)
Production and distribution electricity, gas, heat and air	**19 958**	52.53	6,580	6,596	11,492	(14)	(27)	(4,669)
Transport and warehousing	**2 116**	5.57	2,080	38	–	(2)	–	–
Accommodation; catering and hospitality	**–**	0.00	–	–	–	–	–	–
Banking and insurance industry	**5 833**	15.35	5,800	–	38	(3)	–	(2)
Public administration, defence	**3 242**	8.53	3,246	–	–	(4)	–	–
Others	**1 210**	3.18	247	927	179	(5)	(42)	(96)
Loans and receivables at amortised cost	**37 991**	**100.00**	**19,988**	**10,672**	**13,179**	**(28)**	**(152)**	**(5,668)**
Financial assets at amortised cost	**39 587**	**–**	**21,584**	**10,672**	**13,179**	**(28)**	**(152)**	**(5,668)**
Public administration and defense	**1 640**	90.06	1,640	–	–	–	–	–
Activities of extraterritorial organizations and bodies	**181**	9.94	181	–	–	–	–	–
Debt instruments at FVTOCI	**1 821**	**100.00**	**1,821**	**–**	**–**	**–**	**–**	**–**

(CZK'm)								2018
	Carrying amount (netto)	%	Carrying amount (brutto)			Accumulated depreciation		
			Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial and insurance activities	50	3.06	50	–	–	–	–	–
Public administration and defense	**1,586**	96.94	1,586	–	–	–	–	–
Debt securities valued at amortised cost	**1,636**	100.00	1,636	–	–	–	–	–
Processing industry	7,484	14.37	2,469	3,482	3,155	–	(75)	(1,547)
Production and distribution electricity, gas, heat and air	25,003	48.00	4,527	8,114	17,260	(2)	(19)	(4,877)
Banking and insurance industry	11,921	22.89	11,686	236	118	(1)	–	(118)
Others	7,682	14.75	6,320	858	1,036	(9)	(39)	(484)
Loans and receivables at amortised cost	**52,090**	**100.00**	**25,002**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**
Financial assets at amortised cost	**53,726**		**26,638**	**12,690**	**21,569**	**(12)**	**(133)**	**(7,026)**
Public administration and defense	1,846	90.80	1,846	–	–	–	–	–
Activities of extraterritorial organizations and bodies	187	9.20	187	–	–	–	–	–
Debt instruments at FVTOCI	**2,033**	**100.00**	**2,033**	**–**	**–**	**–**	**–**	**–**

(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 the Bank's short-term earnings (change in NII – Net Interest Income) 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, reflecting amendments to regulations published by the EBA in 2018). The Board sets limits on the acceptable value of risk, from which all market risks limits are derived. Actual utilisation of the limits is monitored on a daily basis by risk management. The Bank uses the EVE method, which calculates the maximum possible change in the economic value of the Bank's capital 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 2019			12 months to 31 December 2018		
ΔEVE	Average	High	Low	Average	High	Low
Interest rate risk	(160,72)	(115,83)	(303,90)	148,60	215,03	73,37
Foreign exchange risk	(1,96)	0,30	(7,79)	5,00	55,94	0,22
Tota ΔEVE	(162,68)	(117,61)	(305,91)	153,60	217,62	74,91

(CZK'm)		31 December 2019*	31 December 2018
ΔEVE			
Interest rate risk	Parallel up	(303,90)	187,04
	Parallel down	120,57	21,40
	Short rate up	(122,40)	74,49
	Short rate down	42,54	22,22
	Steepener	(32,17)	32,66
	Flattener	(26,77)	33,38
	Maximum	**(303,90)**	**187,04**
Foreign exchange risk	Parallel up	0,00	0,27
	Parallel down	(2,01)	0,25
	Maximum	**(2,01)**	**0,27**
Total ΔEVE		**(305,91)**	**187,32**

* Since 2019 ΔEVE calculation and reporting methodology has been changed. The values valid for 2018 reported with a negative sign represent a loss, while the values reported with a positive sign represent the positive impact of shock scenarios.

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 the interest rate and currency risks 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 exchange rates on its financial position and cash flows. Currency risk is managed using the 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 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.

Concentration of assets, liabilities and off-balance sheet items

(CZK'm)	CZK	EUR	USD	Other	Total
At 31. December 2019					
ASSETS					
Cash and cash with the central bank and other deposits repayable on demand	223	526	387	25	1,161
Financial assets designated at fair value through other comprehensive income	1,381	440	–	–	1,821
Financial assets at amortised cost	5,477	30,952	3,029	129	39,587
Tangible assets	124	–	–	–	124
Intangible assets	33	–	–	–	33
Tax assets	185	–	–	–	185
Other assets	18	947	–	–	965
Total assets	**7,441**	**32,865**	**3,416**	**154**	**43,876**
LIABILITIES					
Financial liabilities held for trading	109	1	–	–	110
Financial liabilities measured at amortised cost	3 725	28,814	3,389	151	36,079
Derivatives – Hedge accounting	–	24	–	–	24
Provisions	48	127	23	–	198
Other liabilities	244	35	15	–	294
Total liabilities	**4,126**	**29,001**	**3,427**	**151**	**36,705**
Net on-balance sheet items	3,315	3,864	(11)	3	7,171
Currency forward	3,675	–	–	–	3,675
Net currency position	**6,990**	**3,864**	**(11)**	**3**	**10,846**
At 31. December 2018					
Total assets	15,044	39,823	2,554	25	57,446
Total liabilities	11,621	36,170	2,564	23	50,378
Net on-balance sheet position	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**

(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 basis risk, which arises 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 interest rate fluctuations.

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 financing the Bank's activities and the management of its positions. It includes both the risk of the Bank's ability to finance its assets by way of instruments with appropriate maturity and the Bank's ability to liquidate/sell its assets at a favourable price in a favourable time frame.

The Bank's liquidity risk management uses its own methods for measuring and monitoring net cash flows and liquidity positions. The differences between the inflow and outflow of funds are measured by a liquidity gap analysis, which determines the liquidity positions for different time baskets (gaps). Liquidity development in the currency structure of CZK, EUR, USD and in the total for the Bank is monitored at several levels of market behaviour, i.e. at the level of the standard and the alternative scenarios and three stress scenarios that quantify the impact on liquidity in the event of a reputational crisis, market crisis and combined crisis. The individual 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 a response to an identified situation. Sufficient liquidity is controlled by a system of limits and is managed with the help of on-balance sheet (e.g. cash, liquid securities at FVOCI, issued bonds, loans taken from banks) and off-balance sheet transactions (FX swaps, currency interest rate swaps). The fundraising plan is regularly reviewed by the Bank in response to the current development of liquidity risk, financial markets, etc.

The Bank has access to diversified sources of financing. 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 composed of highly liquid government securities and bonds of the financial institutions of the European Union.

On 1 October 2015, a regulatory requirement for the liquidity coverage ratio (LCR) came into force, setting out the minimum required level of 100%. As of 31 December 2019, the Bank reported LCR of 1.928% (as of 31 December 2018: 371%).

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**
At 31 December 2019						
Financial liabilities at amortised cost due to banks	63	11	1,645	61	–	1,780
Financial liabilities at amortised cost due to clients	725	1,060	705	26	48	2,564
Debt securities issued at amortised cost	42	151	8,330	23,121	1,046	32,690
Total financial liabilities at amortised cost	**830**	**1,222**	**10,680**	**23,208**	**1,094**	**37,034**
Loan commitments	373	322	2,678	–	–	3,373
At 31 December 2018						
Financial liabilities at amortised cost due to banks	4,095	15	65	1,760	–	5,935
Financial liabilities at amortised cost due to clients	310	55	533	39	228	1,165
Debt securities issued at amortised cost	45	6,821	723	26,785	6 281	40,655
Total financial liabilities at amortised cost	**4,450**	**6,891**	**1,321**	**28,584**	**6,509**	**47,755**
Loan commitments	1,398	176	398	3,004	–	4,976

Maturity of derivative financial liabilities

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

(CZK'm)	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	**Total**
At 31 December 2019						
Hedging derivatives	(1)	(2)	(7)	(14)	–	(24)
At 31 December 2018						
Hedging derivatives	(2)	(49)	(40)	(24)	–	(115)

(CZK'm)	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	**Total**
At 31 December 2019						
Cross currency swaps for trading						
outflow	–	–	(15)	(3 819)	–	(3,834)
inflow	–	–	109	3 729	–	3,838
Total outflow	**–**	**–**	**(15)**	**(3 819)**	**–**	**(3,834)**
Total inflow	**–**	**–**	**109**	**3 729**	**–**	**3,838**
At 31 December 2018						
Cross currency swaps for trading						
outflow	(13)	–	–	–	–	(13)
inflow	13	–	–	–	–	13
Cross currency swaps to hedge						
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**

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

(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 values. Fair value incorporates expected future losses while the carrying amount (amortised cost and related impairment) only includes incurred losses at the balance sheet date.

The yield curves used in calculating fair values are sourced from the Reuters system. The fair value of loans classified in level 2 and level 3 is equal to the carrying amount.

(CZK'm)	**2019**	**2018**	**2019**	**2018**
	Carrying amount		Fair value	
FINANCIAL ASSETS				
Balances with central bank	3,502	10,984	3,502	10,983
Deposits with credit institutions	2,179	682	2,182	765
	148	248	162	250
Total receivables from credit institutions	**5,829**	**11,913**	**5,846**	**11,999**
Total receivables from persons other than credit institutions	32,162	40,176	34,465	42,804
Financial instruments held-to-maturity	1,596	1,636	1 627	1,657
FINANCIAL LIABILITIES				
Financial liabilities at amortised cost due to banks	1,768	5,915	1,774	5,927
Financial liabilities at amortised cost due to clients	2,529	965	2,530	949
Debt securities in issue	31,782	39,130	33,887	33,146

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 fair value within the level 2.

Loans to credit institutions

Loans to credit institutions include interbank deposits and other receivables from banks. The fair value of floating rate deposits and overnight deposits is equal to their carrying amount. The estimated fair value of deposits with a fixed interest rate is based on discounted cash flows based on the prevailing yield curve for the respective remaining maturity.

Loans to other customers and held-to-maturity securities

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

Payables to banks and customers

The estimated fair value of deposits with unspecified maturity, which includes interest-free deposits, is an amount repayable on demand.

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

Payables from debt securities in issue

For debt securities issued, market valuation based on market quotation (bid price provided by Reuters) is used.

Measurement at fair value through the statement of financial position

The following table provides an analysis of the financial instruments which are subsequently measured at fair value after the initial recognition and are classified at level 1 and level 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)	2019	2018	2019	2018
	Level 1	Level 2	Level 1	Level 2
Debt securities at fair value through OCI	1,821	–	2,033	–
Hedging derivatives	–	–	–	3
Total	**1,821**	**–**	**2,033**	**3**
Financial liabilities held for trading	–	110	–	120
Hedging derivatives	–	24	–	111
Total	**–**	**134**	**–**	**231**

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

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

Offsetting of financial instruments

The Bank is entitled to present in the statement of financial position certain financial instruments (net amounts), 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 instruments subject to netting or similar agreements.

(CZK'm)						**2019**
	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 value of financial derivatives	–	–	–	–	–	–
Reverse repo	3,298	–	**3,298**	–	–	3,298
Total assets	**3,298**	**–**	**3,298**	–	–	3,298
Negative market value of derivatives	134	–	**134**	–	(24)	110
Repo	–	–	**–**	–	–	–
Total liabilities	**134**	**–**	**134**	**–**	(24)	110

(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 value of financial derivatives	3	–	**3**	–	–	3
Reverse repo	10,894	–	**10,894**	–	–	–
Total assets	**10,897**	**–**	**10,897**	–	–	3
Negative market value of derivatives	231	–	**231**	–	(96)	135
Repo	–	–	**–**	–	–	–
Total liabilities	**231**	**–**	**231**	–	(96)	135

(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 sufficient capital in order to support the development of officially supported financing provided pursuant to Act No. 58/1995 Coll.

The Bank uses the standardised approach based on an external rating to calculate the capital requirement for the credit risk of the investment portfolio, i.e. to calculate risk-weighted exposures. The risk weighting is based on the exposure category and credit quality. Credit quality is determined based on 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 and included in the list of agencies for credit assessment maintained for this purposes by the European Securities and Markets Authority (ESMA) or by an export credit agency, which publishes reviews and complies with OECD methodology for classifying countries. Exposure classes and risk weights when using the standardised approach are defined by Regulation of the European Parliament and the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for banks 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 security of exposures (insurance and other guarantees).

The Bank created and uses a system of internally set capital (SVSK) in order to fulfil its statutory duties 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 financing or officially supported financing and related services pursuant to Act No. 58/1995 Coll. and with respect to the scope and complexity of activities resulting from operating officially supported financing and related services and corresponding risks.

The Board of Directors approved the 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 2019 and 2018, 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)	**2019**	**2018**
Paid-up share capital registered in the commercial register	5,000	5,000
Reserve funds	2,074	1,849
Loss for the period	–	–
The accumulated other comprehensive income	29	(8)
Deductible items from the original equity – intangible assets	(350)	(340)
Capital adjustment due to the use of prudential filters	(2)	33
Other transitional adjustment of capital	318	286
Other deductions from CET1 capital (implementation of IFRS 9)	–	(127)
Initial capital (Tier 1)	**7,069**	**6,693**
Regulatory capital	**7,069**	**6,693**

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 to regulate default, significant increase in credit risk (SICR), probability of default (PD), exposure at default (EAD), 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 upon 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 representing a 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 situation and/or threats to liquidity management limits under stress scenarios and temporary or short-term liquidity problems;
(h) Reduced 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 upon 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 with 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 not eligible for a subsidy 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 direct ties to the state budget.

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

(CZK'm)			2019			2018
	circle 001	circle 002	**Total**	circle 001	circle 002	**Total**
Interest and similar income	496	808	**1 304**	553	1,538	**2,091**
of which: over 10% of revenues						
1 entity-Financial and Insurance sectors	62	–	**62**	63	–	**63**
3 entities-Electricity production and distribution	160	381	**541**	175	650	**825**
Interest expense and similar charges	(5)	(746)	**(751)**	(29)	(1,093)	**(1,122)**
Impairment losses on loans	(4)	(92)	**(96)**	7	(374)	**(367)**
Creation of reserves or their (-) reversal	(119)	13	**(106)**	–	81	**81**
Loss/profit before income tax	32	16	**48**	152	71	**223**
Income tax expense	18	–	**18**	129	–	**129**
Profit for the year	50	16	**66**	280	72	**352**
Loans and receivables (2017 – IAS 39)	6,610	31,381	**37,991**	9,036	43,054	**52,090**
Total assets	10,593	33,283	**43,876**	11,974	45,472	**57,446**
Financial liabilities at amortized cost	618	35,461	**36,079**	4,313	41,697	**46,010**
Total liabilities and equity	8,159	35,717	**43,876**	12,008	45,438	**57,446**

In the segment of finance and insurance, income of one entity exceeded 10% of the aggregate segment income (one entity in 2018). In the segment of electricity generation and distribution, five entities generated income exceeding 10% of the aggregate segment income (4 entities in 2018).

Revenue from core activities of the Bank in the geographic breakdown

			2019			2018
	Interest and similar income	Fee and commisions income	**Total**	Interest and similar income	Fee and commisions income	**Total**
Bulgaria	–	–	**–**	231	**–**	**231**
Czech Republic	226	18	**244**	214	21	**235**
Slovak Republic	311	–	**311**	312	–	**312**
Russia	415	–	**415**	494	–	**494**
China	–	1	**1**	–	–	**–**
Turkey	179	–	**179**	645	–	**645**
Others	173	–	**173**	195	1	**196**
Total interest income and fees	**1,304**	**19**	**1,323**	**2,091**	**22**	**2,113**

6 / NET INTEREST INCOME

(CZK'm)	2019	2018
Interest income from loans to banks	2	4
of which: Interest on impaired loans	–	–
Interest income from loans to clients	1,099	1,870
of which: Interest on impaired loans	286	387
Interest income from interbank deposits	29	36
Interest income from CNB loans – repos	93	90
Interest income from current accounts with other banks	–	–
Interest income from loans and receivables at amortised cost	1,223	2,000
Interest on debt securities at fair value recognized in the OCI	31	43
Interest on debt securities at amortised cost	38	45
Interest on other assets – collateral	1	1
Interest on liabilities	9	–
Gains on hedging interest derivative instruments	2	2
Other interest earnings	81	91
Interest and similar income	**1,304**	**2,091**
Interest expense from received bank credits	(63)	(59)
Interest expense from term deposits	(28)	(11)
Interest expense from checking accounts	–	(1)
Interest expense from interbanking operations	(1)	(16)
Interest expense from issued bonds	(593)	(872)
Interest expense from financial liabilities in amortised costs	(685)	(959)
Interest on assets	(7)	(37)
Gains (loss) on hedging interest derivative instruments	(58)	(126)
Other interest – leases	(1)	–
Interest expense and similar charges	**(751)**	**(1,122)**
Net interest income	**553**	**969**

Interest on assets represents interest expenses from financial assets and interest on liabilities represents interest income from financial liabilities resulting from negative interest rates. The line item 'Other interest – leases' includes interest expense assessed for the lease liability using an effective interest rate of 1.88% p.a. Interest expense and interest income is assessed using an effective interest rate with the exception of interest from hedging. In 2018, the Bank realised a significant one-time compensation of CZK 582 million for an early repayment of a long-term loan.

7 / FEE AND COMMISSION NET INCOME

(CZK'm)	2019	2018
Fees and commisions from credit activities	–	–
Fees and commisions from payments	2	1
Fees and commisions from guarantees	17	21
Fee and commisions income	**19**	**22**
Fees and commisions from clearing and settlement	(1)	(1)
Fees for guarantees	(6)	(7)
Fee for security operations	(1)	(1)
Fees and commisions for rating	(7)	(5)
Fee and commisions expense	**(15)**	**(14)**
Net fee and commission income	**4**	**8**

8 / NET PROFIT FROM FINANCIAL OPERATIONS

Profit from financial operations

(CZK'm)	2019	2018
Profit or (-) loss on financial assets at fair value through profit or OCI	–	1
Realized gains from financial assets and liabilities not carried at fair value through profit	–	1
Costs of derivative transactions with currency instruments	(25)	(291)
Income from derivative transactions with currency instruments	111	241
Net trading income/(expense)	86	(50)
The gains/(losses) of hedge accounting	–	(70)
Profit or (-) loss on derecognition of non-financial assets	1	1
Foreign exchange gains/(losses)	(42)	44
Net profit from financial operations, including state subsidy	45	(74)

In 2019 and 2018, the Bank generated profit in the set (circle) of supported financing eligible for subsidy, which is why it did not qualify for a subsidy.

9 / ADMINISTRATIVE EXPENSES, DEPRECIATION/AMORTISATION AND OTHER OPERATING COSTS

	2019	2018
Number of employees	140	145
Average recorded number of employees	145	150
Board and Supervisory Board	6	8

(CZK'm)	Note	2019	2018
Salaries and bonuses		(153)	(162)
Social and health insurance costs		(51)	(51)
Other personal expenses		(12)	(7)
Personal expenses		(216)	(220)
Advertising		(4)	(4)
Consulting		(4)	(8)
Information technology		(28)	(24)
Rental		–	(17)
Contribution to the Guarantee of financial market		(8)	(12)
Other administrative expenses		(21)	(23)
Total administrative expenses		**(281)**	**(308)**
Software amortisation	17	(44)	(38)
Depreciation of long term tangible assets	16	(29)	(9)
Depreciation and amortization		**(73)**	**(47)**
Cost of recovery		(15)	(30)
Value added tax	21	13	(15)
Other		(1)	(2)
Other operating expenses		**(3)**	**(47)**
Total operating costs		(357)	(402)

In 2019, the income of members of the Board of Directors and the Supervisory Board amounted to CZK 23 million (2018: CZK 29 million). Personal expenses also include provisions for bonuses and employee benefits. 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 9 million to CZK 29 million. The provision for social security and health insurance relating to these bonuses remains at CZK 10 million. The provision for employee benefits increased to CZK 8 million.

Depreciation/amortisation of fixed assets includes amortisation of the right-of-use assets under a lease amounting to CZK 17 million.

The item 'Value added tax' includes income from releasing a provision for the costs relating to the additionally utilised VAT of CZK 22 million.

10 / LOSSES (-) FROM THE IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FVTPL OR THEIR REVERSAL

(CZK'm)	2019	2018
Creation of Allowances – Stage 1	(3)	2
Creation of Allowances – Stage 3	–	–
Creation of allowances for receivables to banks	(4)	2
Creation of Allowances – Stage 1	(14)	(5)
Creation of Allowances – Stage 2	(20)	(22)
Creation of allowances – Stage 3	(94)	(383)
Creation of allowances for receivables to clients	(128)	(410)
Utilisation and release of allowances from receivables to banks	115	–
Utilisation and release of allowances on Ireceivables to customers	1 260	41
Receivables from banks written off	(115)	–
Receivables from clients written off	(7,895)	(1,429)
Claims from credit insurance on bad debts to customers – received indemnity	6,667	1,428
Claims from credit insurance on bad debts to customers – the other to ensure	4	1
Impairment losses on financial assets	(96)	(367)

The item 'Claims from credit insurance on bad debts to customers – received indemnity' also includes payments relating to receivables sold in prior periods in the amount of CZK 30 million. (2018: CZK 38 million).

Charge for (-) and reversal of provisions

(CZK'm)			2019			2018
	Net creation or reversal	Creation	Reversal	**Net creation or reversal**	Creation	Reversal
Provisions for loan commitments	–	(3)	3	(3)	(15)	12
Provisions for financial guarantees	13	(15)	28	84	(18)	102
Reserves for litigation	(119)	(119)	–	–	–	–
Other	–	–	–	–	(1)	1
Creation of provisions or reversal	**(106)**	**(137)**	**31**	**81**	**(34)**	**115**

11 / INCOME TAX

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

(CZK'm)	Note	2019	2018
Income tax payable		–	(128)
Deferred tax	22	(18)	(1)
Income tax expense		**(18)**	**(129)**
Expected tax 19% (2018: 19%)		(9)	(42)
Effects of non-taxable expenses		(372)	(167)
Effects of non-taxable income		357	120
Tax liability / tax loss for the accounting period		(24)	(89)
Income tax of the periods		–	128
Deferred tax		18	1
Unutilised deferred tax asset due to tax loss		24	89
Income tax expense		**18**	**129**

Tax non-deductible expenses primarily include the write-off of receivables in the amount of CZK 1,879 million and the creation of tax non-deductible provisions for business cases of CZK 106 million. Tax non-deductible income primarily represents income from receivables written off (insurance proceeds received) in the amount of CZK 624 million and use of tax non-deductible allowances of CZK 1,255 million. 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)	2019	2018
Mandatory reserve deposits with central bank	223	26
Current accounts for other credit institutions	941	34
Cash and cash with the central bank and other deposits repayable on demand	**1,164**	**60**
Unprompted deposits with central banks	3,502	10,984
Unprompted deposits at other credit institutions	1,202	519
Other deposits included in cash equivalents	4,704	11,503
Total cash and cash equivalents	**5,868**	**11,563**
Adjustment to cash	(3)	–
Adjustments to cash equivalents	(2)	–
Net cash and cash equivalents	**5,863**	**11,563**

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

13 / LOANS AND RECEIVABLES AT AMORTISED COST

(CZK'm)	2019	2018
Deposits included in cash equivalents	4,704	11 503
Other receivables from credit institutions	980	163
Loans to credit institutions	149	364
Allowances	(4)	(117)
Total receivables from credit institutions	**5,829**	**11,913**
Receivables from other customers	38,006	47,231
Allowances	(5,844)	(7,054)
Total receivables from other customers	**32,162**	**40,177**
Total loans and receivables at amortised cost	**37,991**	**52,090**
Remaining maturity:		
Current loans to customers	7,081	12,976
Non-current loans to customers	30,910	39,114

At the end of 2019, the Bank recorded receivables written off and in the process of recovery in the amount of CZK 15,547 million (2019: CZK 8,926 million). Generally, these are receivables recovered with respect to the Bank's obligations under insurance contracts.

Loans to credit institutions

(CZK'm)	**2019**	**2018**
Deposits with the central bank	3,502	10,984
Deposits with credit institutions	2,182	682
Total deposits	**5,684**	**11,666**
Factoring	149	248
Sale of receivables	–	116
Total receivables from credit institutions at amortized cost	**149**	**364**
Allowance for expected credit losses	(4)	(117)
Total receivables from credit institutions at amortized cost	**5,829**	**11,913**
Remaining maturity:		
Current loans to customers	5,690	11,879
Non-current loans to customers	139	34

Allowances for loans to credit institutions

(CZK'm)	**2019**	**2018**
At 1 January	**(117)**	**(118)**
Increase of allowance	(135)	–
Utilisation for write offs	115	–
Decrease of allowance	133	1
Net movement in allowances	113	1
Foreign exchange differences	–	–
At 31 December	**(4)**	**(117)**

Loans to other customers

(CZK'm)	**2019**	**2018**
Loans to corporate entities		
Pre-export funding	1,035	1,226
Export funding	35,218	45,686
Investment	1,664	176
Performance from a guarantee	10	4
Trade receivables	44	66
Factoring	35	73
Receivables from clients at amortized cost	38,006	47 231
Allowance for expected credit losses	(5,844)	(7,054)
Receivables from clients at amortized cost	**32,162**	**40,177**
Remaining maturity:		
Current loans to customers	1,390	1,096
Non-current loans to customers	30,772	39,081

Allowances for loans to other customers

(CZK'm)	**2019**	**2018**
At 1 January	**(7,054)**	**(6,629)**
Increase in allowance	(308)	(723)
Utilisation for write offs	1,260	41
Decrease of allowance	180	315
Net movement in allowances	1,132	(367)
Foreign exchange differences	78	(58)
At 31 December	**(5,844)**	**(7,054)**

14 / DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the derivative instruments strictly for hedging. Changes in fair value or cash flows from the hedged item arising from interest rate fluctuations are subject to the hedge. For each derivative, it is decided whether hedge accounting should be applied to it in line with IAS 39. The 1:1 hedge ratio is set in the application of hedge accounting. The ineffectiveness of hedge accounting is usually caused by a minor mismatch of cash flow terms. The Bank enters into transactions with interest rate and currency derivatives. Counterparties include other financial institutions.

Total derivatives

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2019				
Derivatives held for trading	3,675	3,811	–	110
Hedging derivatives	330	330	–	24
Total derivatives	**4,005**	**4,141**	**–**	**134**
Remaining maturity:				
Short-term derivatives held for trading	–	–	–	–
Long-term derivatives held for trading	3,675	3,811	–	110
Short-term hedging derivatives	–	–	–	–
Long-term hedging derivatives	330	330	–	24
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

Derivatives held for trading

(CZK'm)	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2019				
Cross-currency interest rate swap	3,675	3,811	–	110
Total derivatives held for trading	**3,675**	**3,811**	**–**	**110**
31 December 2018				
Cross-currency interest rate swap	3,688	3,872	–	120
Total derivatives held for trading	3,688	3,872	–	120

Fair value hedging derivatives

(CZK'm)				
	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2019				
Interest rate swaps	330	330	–	24
Total hedging derivatives	**330**	**330**	**–**	**24**
31 December 2018				
Interest rate swaps	386	386	–	33
Total hedging derivatives	**386**	**386**	**–**	**33**

In accordance with the rules of the application of hedge accounting approved by the ALCO, the Bank has entered into interest rate swaps, which hedge the fair value of a portion of the interest payments of the loans granted in EUR or USD (convert fixed interest payments into variable). The testing of hedging effectiveness indicated that hedging is highly effective and complies with the requirements of IAS 39.

Cash flow hedging derivatives

(CZK'm)				
	Notional amount		Fair values	
	Assets	Liabilities	Assets	Liabilities
31 December 2019				
Interest rate swaps	–	–	–	–
Total hedging derivatives	**–**	**–**	**–**	**–**
31 December 2018				
Interest rate swaps	2,282	2,282	3	78
Total hedging derivatives	**2,282**	**2,282**	**3**	**78**

The Bank arranged interest rate and cross currency interest rate swaps in order to hedge cash flows from future liabilities of the Bank (loans bearing 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, whereby it hedges the cash flows from its financial liabilities. By means of cross currency interest rate swaps, the Bank transfers the interest payment resources from one currency into another one in order to hedge its currency risk.

In 2019 and 2018, the Bank did not enter into any interest rate or cross currency interest rate swap to hedge cash flows.

Testing the hedging effectiveness showed that hedging is highly effective and complies with the requirements of IAS 39. The effective part of a change in the 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 interest rate and cross currency interest rate swaps of CZK 0 million in 2019 and CZK 46 million in 2018. Hedging relationships used the 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.

15 / DEBT SECURITIES

The Bank's debt 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.

In line with IFRS 9, 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.

Classification by listing status

(CZK'm)							2019
Debt securities at fair value	**Carrying**	**Carrying amount (brutto)**			**Accumulated depreciation**		
through OCI	**amount**	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	1,821	**1,821**	**–**	**–**	**–**	**–**	**–**
– listed	**1,821**	1,821	–	–	–	–	–
Debt securities at amortised cost							
	1,596	**1,596**	**–**	**–**	**–**	**–**	**–**
– listed	**1,546**	1,546	–	–	–	–	–
– unlisted	**50**	50	–	–	–	–	–

(CZK'm)							2018
Debt securities at fair value	**Carrying**	**Carrying amount (brutto)**			**Accumulated depreciation**		
through OCI	**amount**	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	2,033	**2,033**	**–**	**–**	**–**	**–**	**–**
– listed	**2,033**	2,033	–	–	–	–	–
Debt securities at amortised cost							
	1,636	**1,636**	**–**	**–**	**–**	**–**	**–**
– listed	**1,586**	1,586	–	–	–	–	–
– unlisted	**50**	50	–	–	–	–	–

Classification by residual maturity

(CZK'm)							2019
Debt securities at fair value	**Carrying**	**Carrying amount (brutto)**			**Accumulated depreciation**		
through OCI	**amount**	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	1 821	**1 821**	**–**	**–**	**–**	**–**	**–**
– short term	**288**	288	–	–	–	–	–
– long term	**1 533**	1 533	–	–	–	–	–
Debt securities at amortized cost							
	1 596	**1 596**	**–**	**–**	**–**	**–**	**–**
– short term	**18**	18	–	–	–	–	–
– long term	**1 578**	1 578	–	–	–	–	–

(CZK'm)							2018
Debt securities at fair value through OCI	**Carrying amount**	**Carrying amount (brutto)**			**Accumulated depreciation**		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	2 033	**2 033**	**–**	**–**	**–**	**–**	**–**
– short term	**247**	247	–	–	–	–	–
– long term	**1 786**	1 786	–	–	–	–	–
Debt securities at amortized cost							
	1 636	**1 636**	**–**	**–**	**–**	**–**	**–**
– short term	**47**	47	–	–	–	–	–
– long term	**1 589**	1 589	–	–	–	–	–

In 2019 and 2018, no increase in credit risk or impairment of debt securities was recorded.

16 / TANGIBLE FIXED ASSETS

(CZK'm)	Right of use	Office equipment	Motor vehicles	Unfinished investment	**Total**
Cost					
At 1 January 2018	–	141	5	9	155
Additions	–	16	–	15	31
Disposals	–	(32)	(2)	(16)	(50)
At 31 December 2018	**–**	**125**	**3**	**8**	**136**
Additions	86	27	–	22	135
Modifications	16	–	–	–	16
Disposals	0	(15)	(1)	(27)	(43)
At 31 December 2019	**102**	**137**	**2**	**3**	**244**
Accumulated depreciation					
At 1 January 2018	–	(128)	(4)	–	(132)
Additions	–	(9)	(1)	–	(10)
Disposals	–	32	2	–	34
At 31 December 2018	**–**	**(105)**	**(3)**	**–**	**(108)**
Additions	(17)	(11)	(1)	–	(29)
Disposals	–	15	2	–	17
At 31 December 2019	**(17)**	**(101)**	**(2)**	**–**	**(120)**
Closing net book amount					
At 31 December 2018	**–**	**20**	**–**	**8**	**28**
At 31 December 2019	**85**	**36**	**–**	**3**	**124**

The Bank uses an operating lease with the notice period of one year and annual rental payments of CZK 18 million. As of 1 January 2019, the estimated lease term was five years. As of 1 January 2019, the right-of-use asset was valued at CZK 86 million. As of 31 December 2019, the estimated lease term was extended by one year.

17 / INTANGIBLE FIXED ASSETS

(CZK'm)	2019	2018
Intangible fixed assets		
Cost at 1 January	**340**	**302**
Additions	23	38
Disposals / transfers	(12)	–
Cost at 31.12.	**351**	**340**
Accumulated depreciation at 1 January	**(286)**	**(248)**
Additions	(44)	(38)
Disposals / transfers	12	–
Accumulated depreciation at 31 December	**(318)**	**(286)**
Closing net book amount at 1 January	**54**	**54**
Closing net book amount at 31 December	**33**	**54**

18 / OTHER ASSETS

(CZK'm)	2019	2018
Estimated receivables – insurance	945	1 333
Estimated receivable from other collateral	1	12
Prepayments and accrued income	14	16
Tax receivables	4	5
Receivables from various debtors	1	1
Total other assets	**965**	**1 367**
Remaining maturity:		
Current other assets	20	21
Non-current other assets	945	1 346

19 / FINANCIAL LIABILITIES AT AMORTISED COST

Total financial liabilities at amortised cost

(CZK'm)	2019	2018
Deposits and other financial liabilities at amortised cost due to banks	1,768	5,915
Deposits and other financial liabilities at amortised cost due to clients	2,529	965
Deposits, loans and other financial liabilities at amortised cost	4,297	6,880
Issued bonds at amortized cost	31,782	39,130
Total financial liabilities at amortised cost	**36,079**	**46,010**
Remaining maturity:		
Current	11,910	11,784
Non-current	24,169	34,226

Financial liabilities to credit institutions at amortised cost

(CZK'm)	2019	2018
Short term deposits received	1,768	4,008
Borrowings	–	1,907
Total financial liabilities at amortised cost due to banks	**1,768**	**5,915**
Type of rate:		
Fixed interest rates	182	4,338
Variable interest rates	1,586	1,577
Remaining maturity:		
Current	1,588	4,040
Non-current	180	1,875

Financial liabilities to other customers at amortised cost

(CZK'm)	2019	2018
Current accounts	615	229
Term deposits	1,847	658
Escrow accounts	67	78
Total financial liabilities at amortised cost due to clients	**2,529**	**965**
Type of rate:		
Fixed interest rates	2,529	829
Interest free deposits	–	136
Remaining maturity:		
Current	2,463	887
Non-current	66	78

Escrow accounts are deposits from customers held as a form of cash security for provided credit facilities.

The Bank's financial liabilities decreased due to a reduced need for resources. Liabilities to credit institutions decreased by CZK 4,147 million in 2019 (2018: increased by CZK 3,979 million). Liabilities from issued bonds decreased by CZK 7,348 million (2018: decreased by CZK 12,784 million). Liabilities to other customers increased by CZK 1,564 million in 2019 (2018: decreased by CZK 497 million).

Financial liabilities at amortised cost arising from issued debt securities

(CZK'm)				2019
ISIN	**Currency**	**Issue date**	**Maturity date**	**Accrued value**
XS0501185929	EUR	15 April 2010	15 April 2020	3,925
XS0850460634	EUR	15 November 2012	15 November 2022	2,221
XS0911304326	EUR	8 April 2013	8 April 2025	1,037
XS1121094632	EUR	16 October 2014	16 October 2024	3,811
XS0973829483	EUR	25 September 2013	25 September 2020	3,812
XS0598967502	EUR	3 March 2011	3 March 2021	1,843
XS0630593233	CZK	26 May 2011	26 May 2021	3,686
XS1210661572	EUR	188 April 2015	3 April 2023	2,538
XS0849907281	EUR	5 November 2012	5 November 2024	1,276
XS1082830255	EUR	2 July 2014	2 July 2021	6,356
XS0828623073	EUR	3 October 2012	3 October 2022	1,277
Issued bonds at amortized cost				**31,782**

(CZK'm)	2019
Remaining maturity:	
Current	7,858
Non-current	23,924

During 2019, bond XS0757372114 in the nominal value of EUR 250 million was paid up. Bonds issued by the Bank are listed on the Luxembourg Stock Exchange.

20 / OTHER LIABILITIES

(CZK'm)	2019	2018
Lease payables	86	–
Advance payment on insurance benefits	–	3,658
Accruals and deferrals	75	2
Tax liabilities	3	7
Liabilities to different creditors	130	354
of which financial collateral	*47*	*221*
Total other liabilities	**294**	**4,021**
Remaining maturity:		
Current other liabilities	285	3,806
Non-current other liabilities	9	215

Lease liabilities relate to the lease of a building based on a contract for an indefinite period with an anticipated lease term of five years. At the beginning of the year, lease liabilities were measured at CZK 86 million. Liabilities from short-term leases and leases with a low value were insignificant as of both 1 January 2019 and 31 December 2019.

21 / PROVISIONS

(CZK'm)	Note	2019	2018
Provisions for deferred compensation including payments insturance			
At 1 January		**47**	**50**
Additions to provisions	9	9	12
Release of provisions	9	(9)	(10)
Usage of provisions	9	(8)	(5)
At 31 December		**39**	**47**
Provisions for employee benefits			
At 1 January		**2**	**1**
Additions to provisions	9	8	1
Release of provisions	9	(2)	–
Usage of provisions		–	–
At 31 December		**8**	**2**
Provisions for expenses retroactively raised the VAT deduction			
At 1 January		**22**	**22**
Additions to provisions		–	–
Release of provisions	9	(22)	–
Usage of provisions		–	–
At 31 December		**–**	**22**
Provisions for financial guarantees			
At 1 January		**41**	**123**
Additions to provisions	10	15	18
Release of provisions	10	(28)	(101)
Usage of provisions		–	–
Exchange differences			1
At 31 December		**28**	**41**
Provisions for loan commitments			
At 1 January		**4**	**3**
Additions to provisions	10	3	15
Release of provisions	10	(3)	(12)
Usage of provisions		–	–
Exchange differences		**–**	**(2)**
At 31 December		**4**	**4**
Provisions for litigation			
At 1 January		**–**	**–**
Additions to provisions	**10**	**119**	**–**
Release of provisions		**–**	**–**
Usage of provisions		**–**	**–**
		–	**–**
At 31 December		**119**	**–**
Total provisions		**198**	**116**

22 / DEFERRED INCOME TAXES

Deferred income tax for 2019 is calculated using a tax rate for years of expected use of the deferred tax in the amount of 19% for 2019 and the following years.

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

(CZK'm)	Note	2019	2018
At 1 January		21	51
Deferred tax receivable for reserves for additional application of VAT		(4)	–
Deferred tax on tangible and intangible assets		(1)	2
Deferred tax to reserves		23	–
Total net deferred tax income/expense	11	18	2
Securities			
Change in the deferred tax on the debt securities at fair value recognized in the OCI	24	–	6
Cash flow hedges			
Change in deferred tax on hedging derivatives	24	(8)	(38)
At 31 December		31	21

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

(CZK'm)	2019	2018
Deferred tax liabilities		
Accelerated tax depreciation	(1)	(1)
Debt securities at fair value through OCI	(7)	(6)
	(8)	(7)
Deferred tax assets		
Provisions for litigation	23	–
Deferred tax assets for reserves for additional application of VAT	–	4
Tax non-deductible creation of provision for long term benefits	16	16
Cash flow hedges	–	8
	39	28
Net deferred income tax assets/(liabilities)	**31**	**21**

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 items that are expected to have a sufficient tax base for their application in subsequent taxation periods.

23 / SHARE CAPITAL

Pursuant to Act No. 58/1995 Coll., the Czech state must own at least two thirds of the Bank's shares. Shareholder's rights of the Czech state 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.

(CZK'm)	Number of shares (ks)	Nominal value per share	Total nominal value	Share (%)
31 December 2019				
Czech state	3,200	1	3,200	
Czech state	100	10	1,000	
Czech state total	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 2018				
Czech state	3,200	1	3,200	
Czech state	100	10	1,000	
Czech state total	3,300		4,200	84,0
EGAP	300	1	300	
EGAP	50	10	500	
EGAP	350	–	800	16,0
Total	**3,650**		**5,000**	**100,0**

24 / VALUATION GAINS OR LOSSES

(CZK'm)	Note	**2019**	**2018**
Debt securities at fair value through OCI (FVTOCI)			
At 1 January		**28**	**60**
Changes in fair value		3	(38)
Deferred income taxes	22	(1)	6
Total change		**2**	**(32)**
Influence of cross-rounding		(1)	–
At 31 December		**29**	**28**
Cash flow hedges			
At 1 January		**35**	**(193)**
Changes in fair value		43	196
Deferred income taxes	22	(8)	(38)
Total change		**35**	**158**
Influence of cross-rounding		–	(1)
At 31 December		**–**	**(35)**
Revaluation Total		**29**	**(8)**

25 / 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 value as equal to 20% of share capital is achieved. This reserve can be used exclusively to cover losses. In 2019, it increased by CZK 18 million by allocating the 2018 profit. The closing balance of the reserve was CZK 791 million.

Other special funds

The Bank creates an export risk fund, which is intended primarily to cover losses of the Bank. In 2019, it increased by CZK 207 million by allocating the 2018 profit. The closing balance of the fund is CZK 1,284 million.

26 / CONTINGENT LIABILITIES AND COMMITMENTS

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

Provided loan commitments and guarantees

		2019		2018
	Credit institutions	**Other clients**	**Credit institutions**	**Other clients**
Granted loan commitments	–	3,373	71	4,905
Provided financial guarantees	–	1,390	–	1,134
Total	**–**	**4 ,763**	**71**	**6,039**

Received collateral and pledge

(CZK'm)	2019	2018
Credit institutions		
Received insurance	–	–
Financial guarantees received	1,555	1,398
Securities Received in reverse repo transactions	3,237	10,725
Other collateral Received	7	7
Total	**4,799**	**12,130**
Other clients		
Recieved insurance	47,771	–
Financial guarantees received	30,365	93,605
Other collateral Recieved	212	6,895
Total	**78,348**	**100,500**
Total	**83,147**	**112,630**

Contingent assets (received irrevocable guarantees, collateral and insurance) are stated at the nominal value of the expected performance. This is to collateralise balance sheet and off-balance sheet exposures of the Bank.

Securities received in reverse repo transactions are measured at fair value.

27 / RELATED PARTY TRANSACTIONS

The Bank provides specialised services supporting export activities in accordance with Act No. 58/1995 Coll. This Act also determines the shareholders' structure. The Bank is fully controlled by the Czech state, which owns 84% of the Bank's share capital directly and 16% of the share capital indirectly via EGAP, which is fully owned by the Czech state.

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

Transactions with related parties are entered into under arm's length conditions. All fees related to collaterals and guarantees received, including insurance premiums, are borne by the debtors. The types and outstanding balances of related-party transactions including related expense and income are as follows:

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

(CZK'm)		**2019**		**2018**
Total financial receivables	Balance at December 31	Income	Balance at December 31	Income
Placements with banks				
Česká národní banka (central bank)	3,521	94	10,920	90
Purchased bonds				
Ministerstvo financí ČR	3,070	60	3,229	59
Insurance receivable and other receivables				
EGAP, a.s.	950	–	1,341	8
Right of use – leasing	86	(17)	–	–
EGAP, a.s.	**1,036**	(17)	**1,341**	**8**
Total receivables	**7 627**	**137**	**15 490**	**157**

(CZK'm)		**2019**		**2018**
FINANCIAL LIABILITIES	Balance at December 31	Expense	Balance at December 31	Expense
Due to clients				
EGAP, a.s.	1 911	(24)	683	(42)
	1 911	**(24)**	**(42)**	**(42)**
Insurance prepayment received				
EGAP, a.s.	–	–	3 658	–
LIABILITY ARISING FROM STATE SUBSIDY				
Ministerstvo financí ČR	73	–	–	–
Lease obligation				
EGAP, a.s.	86	1	–	–
Total financial liabilities	**2 070**	**1**	**4 341**	**(42)**

The prepayment of the state subsidy will be settled with the Ministry of Finance of the Czech Republic within a due deadline.

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

28 / SUBSEQUENT EVENTS

In March 2020, the Bank signed a settlement concerning the amount of insurance benefits to be paid, including accrued interest, as part of resolving insured events, i.e. a failure to repay loans on the part of two debtors. The outcome of the amicable settlement will be reflected in the 2020 income statement as an increase in revenues of approximately CZK 248 million.

Date of preparation:

26 March 2020

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

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. (the "Bank")
Registered office:	Vodičkova 34/701, Prague 1, 111 21
Corporate ID:	63078333
Tex 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

Česká exportní banka, a.s

Ministerstvo financí ČR **84 %**

Exportní garanční a pojišťovací společnost, a.s. **16 %**

For information on other related parties, refer to Appendix 1

b/ Role of the Controlled Entity

Act No. 58/1995 Coll., on Insurance and Financing of 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 ministry referred to below and indirectly through Exportní garanční a pojišťovací společnost, a.s. (Export Guarantee and Insurance Corporation).

Composition of shareholders and their share in voting rights:

1. State – Czech Ministry of Finance	**84% of shares**
having its registered office at Letenská 15, Prague 1, 118 10, corporate ID 00006947	4,200 votes
2. Exportní garanční a pojišťovací společnost, a.s.	**16% of shares**
having its registered office 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/ 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. 121000545 of 11 November 2019
2. Insurance Agreement No. 202002064 of 3 September 2019
3. Insurance Agreement No. 202002042 of 27 August 2019

Amendments to Individual Insurance Agreements

4. Amendment No. 8 of 26 February 2019 to Insurance Agreement No. 107008177
5. Amendment No. 8 of 4 January 2019 to Insurance Agreement No. 1370019155
6. Amendment No. 8 of 4 January 2019 to Insurance Agreement No. 133004813
7. Amendment No. 9 of 31 October 2019 to Insurance Agreement No. 107008177
8. Amendment No. 5 of 27 September 2019 to Insurance Agreement No. 107010203
9. Amendment No. 1 of 16 July 2019 to Insurance Agreement No. 107010247
10. Amendment No. 1 of 16 July 2019 to Insurance Agreement No. 107010574
11. Amendment No. 1 of 16 July 2019 to Insurance Agreement No. 107011057

Insurance Rulings

1. Insurance Ruling No. 21 of 14 January 2019 to Limit Insurance Agreement No. 107009066
2. Insurance Ruling No. 21 of 14 January 2019 to Limit Insurance Agreement No. 107009009
3. Insurance Ruling No. 22 of 8 April 2019 to Limit Insurance Agreement No. 107009009
4. Insurance Ruling No. 22 of 8 April 2019 to Limit Insurance Agreement No. 107009066
5. Insurance Ruling No. 001 of 29 August 2019 to Limit Insurance Agreement No. 202002042
6. Insurance Ruling No. 002 of 29 August 2019 to Limit Insurance Agreement No. 202002042
7. Insurance Ruling No. 23 of 13 August 2019 to Limit Insurance Agreement No. 107009009
8. Insurance Ruling No. 23 of 13 August 2019 to Limit Insurance Agreement No. 107009066
9. Insurance Ruling No. 001 of 5 September 2019 to Limit Insurance Agreement No. 202002064
10. Insurance Ruling No. 24 of 13 September 2019 to Limit Insurance Agreement No. 107009009
11. Insurance Ruling No. 24 of 13 September 2019 to Limit Insurance Agreement No. 1070090666
12. Insurance Ruling No. 25 of 15 February 2019 to Limit Insurance Agreement No. 107007378
13. Insurance Ruling No. 1 of 17 June 2019 to Limit Insurance Agreement No. 107008291
14. Insurance Ruling No. 2 of 17 June 2019 to Limit Insurance Agreement No. 1070082911
15. Insurance Ruling No. 5 of 12 September 2019 to Limit Insurance Agreement No. 107009257
16. Insurance Ruling No. 10 of 20 December 2019 to Limit Insurance Agreement No. 107006941

Amendments to Insurance Rulings

1. Amendment to Insurance Ruling No. 1 of 21 August 2019 to Insurance Agreement No. 10701053

Other types of agreements

1. Agreement on Waiting Time Extension of 30 October 2019 to Insurance Agreements Nos. 202001401 and 202001658
2. Agreement on Conciliation Procedure of 12 December 2019 to Insurance Agreement No. 107006941
3. Agreement to Terminate an Insurance Agreement and Refund Part of the Insurance Premium of 1 March 2019 to Insurance Agreement No. 107008043
4. Agreement to Terminate an Insurance Agreement and Refund Part of the Insurance Premium of 7 February 2019 to Insurance Agreement No. 107008515

Insurance agreements with ČEB effective as of 31 December 2019 (including agreements concluded in 2019)

Characteristics	Number
One-time insurance agreement, type Bf	1
One-time insurance agreement, type If	1
One-time insurance agreement, type Z	8
One-time insurance agreement, type F	1
One-time insurance agreement, type D	33
Total one-time insurance agreements as of 31 December 2019	**44**
Limit insurance agreements, type Bf, including insurance decisions on those agreements	12
Limit insurance agreements, type D, including insurance decisions on those agreements	18
Total limit insurance agreements and insurance decisions issued on the limit insurance agreements (including decisions on limit insurance agreements of prior years) effective	**30**
Total insurance agreements (including insurance decisions on limit insurance agreements effective as of 31 December 2019	**74**

Agreements and amendments concluded with EGAP from 1 January 2019 to 31 December 2019

- Agreement on current account of 13 November 2019
- Amendment no. 11 to the Agreement on the lease of non-residential premises of 29 October 2019
- Amendment no. 2 to the Agreement on establishing deposit accounts and on conditions for making term deposits with an individual interest rate on deposit accounts of 17 April 2019

Other agreements with EGAP effective from 1 January 2019 to 31 December 2019

- Agreement on the lease of non-residential premises of 1 April 1998
- Agreement on establishing deposit accounts and on rules and conditions for making term deposits with an individual interest rate on deposit accounts of 1 December 2005
- Agreement on commercial current accounts of 23 April 2014
- Cooperation agreement in insuring business cases (pre-export loans) against the risk of being subject to default and on bank guarantees against the risk of their utilisation, provided to SMEs of 26 June 2008
- Agreement on the protection and non-disclosure of confidential information between ČEB, a.s. and EGAP, a.s. of 11 November 2015
- Cooperation agreement in providing support to SMEs between ČEB, a.s., ČMZRB, a.s., EGAP, a.s. and Raiffeisenbank a.s. of 10 December 2009
- Cooperation agreement in providing support to SMEs between ČEB, a.s., ČMZRB, a.s., EGAP, a.s. and KB, a.s. of 6 October 2009
- Framework agreement on trading on the financial market of 4 April 2014
- Agreement on using compatible media in payments of 6 November 2000
- Framework agreement on foreign exchange spots of 4 December 2009

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

f/ 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 26 March 2020

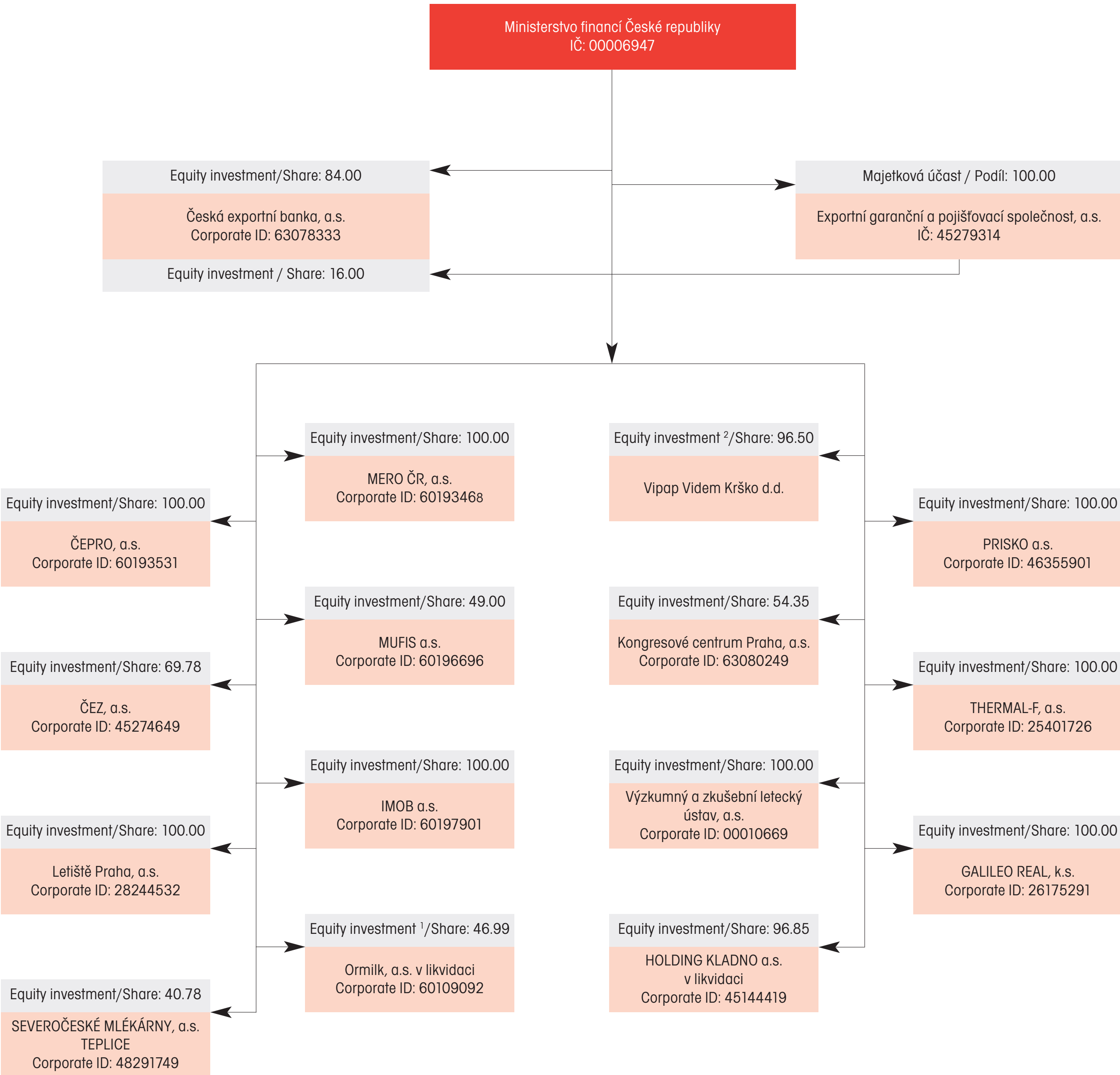
Ing. Jaroslav Výborný, MBA
Chairman of the Board of Directors

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

Appendix No. 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] Ormilk, a.s. in liquidation – removed from the public register on 21 September 2019

[2] Vipap Videm Krško d.d. – transfer of shares to the acquirer not controlled by the Czech Republic – Ministry of Finance, on 14 November 2019

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